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Report of the Royal Commission on the Status of Pensions in Ontario

Summary Report: A Plan for the Future

1980

Report of the Royal Commission on the Status of Pensions in Ontario

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Summary Report: A Plan for the Future

The Royal Commission on the Status of Pensions in Ontario

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Ontario

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Foreword

The Royal Commission on the Status of Pensions in Ontario was established on April 20, 1977 by the Ontario Government under the Public Inquiries Act. The Commission was required by its terms of reference:

1. *To study the impact on the economy of different systems of financing retirement pension plans and arrangements including Ontario's financing and investment role in the Canada Pension Plan.*

2. *To examine the terms and conditions of existing retirement pension plans and arrangements, to evaluate their effectiveness in terms of present social and economic circumstances, and to study the interrelationships among the private sector plans, the Canada Pension Plan, and public employee pension plans.*

3. *To make such recommendations in relation to the above as the Commission deems appropriate.*

Five members were appointed to the Commission. Their diversity of background and experience reflects the many-sided nature of this inquiry. The Chairman, Donna J. Haley, Q.C., practises law in Toronto and, since 1974, has been Chairman of the Pension Commission of Ontario. She also served as a member of the Task Force on Employee Benefits, which in 1974 advised the Ontario Ministry of Labour on amendments to the Employment Standards Act.

Alfred H. Cordell, of London, a chartered accountant, is Vice-President in charge of Public Affairs and Marketing Services for 3M Canada Inc. He was previously chief financial officer of the company and was involved in the work of the Financial Executives Institute on Pensions. Donald G. M. Coxe, of Guelph, is a lawyer and Executive Vice-President of Mu-Cana Investment Counselling Ltd.; he is also a former member of the Canada Pension Plan Advisory Committee. Charles McDonald, of Windsor, recently retired as Director of the Retired Workers and Community Service Department of the United Auto Workers' Union; he served previously as President of his UAW local union. Mr. McDonald is

currently President of the National Pensioners and Senior Citizens Federation. He was appointed to the Commission to replace Terry Meagher, Secretary-Treasurer of the Ontario Federation of Labour, who resigned in January, 1978. Walter G. Upshall, Toronto, retired from the T. Eaton Company Limited having served as both personnel manager and credit manager, and now operates his own investment counselling business. He has served as a member of the Ontario Advisory Council on Senior Citizens.

The Commission therefore had strong voices, not only from management and labour but also from the three major consumer categories: the employed, the self-employed, and the retired. Its members also brought to bear certain relevant financial, legal, and social skills. This combination of experience and perspectives was indispensable to the Commission's understanding of pension issues.

Such a diversity of viewpoints admittedly made for lengthy deliberations. Nevertheless, the Commission felt obliged to explore every avenue towards consensus within its own membership. That consensus has emerged, not without difficulty, but as the ultimate product of a common concern for the social and economic objectives involved. A remarkable degree of unanimity was achieved by the Commission which gives hope for the resolution of the issues in the larger arena of public policy making.

A PLAN FOR THE FUTURE

All the recommendations of the Commission which appear throughout the other volumes of its report are consolidated in this Summary Report. We have also included some general findings and conclusions of the Commission. These statements are followed by the pertinent recommendations. The recommendations are not necessarily in the same order as in the earlier volumes of the report. For the factual background and the reasoning underlying the conclusions of the Commission, the reader is urged to refer to the report itself.

ACKNOWLEDGEMENTS

The Commission is indebted to many for the ready assistance given to it in its undertaking. Throughout, the Commission has found pension regulatory authorities, ministries, and agencies of government at all levels, members of the actuarial profession and representatives of the pension industry ever ready to respond to the needs and questions of the Commission. Particularly are we indebted to J. Wells Bentley, Superintendent of Pensions for Ontario; Richard Humphrys, Superintendent of Insurance, Ottawa; David Stouffer and John Ilkiw, Ministry of Treasury and Economics, Ontario; Elizabeth Aboud, Benefits Policy Branch, Civil Service Commission of Ontario; Frank Nacsa, Ministry of Revenue, On-

tario; Leonard Haywood, Ministry of Labour, Ontario; Peter Clendinneng, Ministry of the Attorney General, Ontario; Harvey Lazar, Department of Justice, Ottawa; Dr. Peter Cornell, The Economic Council of Canada; Health and Welfare Canada; Statistics Canada; Dudley Funnell, Tomenson-Alexander Associates Limited; Geoffrey Calvert; R. A. Field, The Wyatt Company; D. D. Ezra, James P. Marshall Inc.; Tristram Lett, formerly of Ministry of Treasury and Economics; Frank Speed, The Canadian Life Insurance Association; Hope Holmested, Ontario Advisory Council on Senior Citizens; David Allin, Trust Companies Association of Canada; Daniel Horigan, Canadian Federation of Independent Business; Dr. Ross Archibald, University of Western Ontario; J. Eric Ford, Clarkson Gordon; William Rivers, Martin E. Segal Company; Kevin Collins, Canadian Labour Congress; Claude Poulin, United Auto Workers International Union.

The Commission's own consultants, who are listed individually in Volume IX of the report, have worked diligently with the Commission from the very early stages of the undertaking and have each contributed in a special way to the results of the Commission's work. Special thanks are due to Laurence Coward and Keith Cooper for advising on the actuarial work undertaken for the Commission and the analysis of the results.

A small but very able staff has kept the work of the Commission going forward when it could well have been engulfed by the magnitude of the study. Each of them deserves to be mentioned by name: Ann C. Jamieson and Brian Borich, researchers; Michael Carr, shorthand reporter; Diane Nelles, Anna Dopta, Roswita Busskamp, editorial and production work; Flora McAfee, executive secretary; Laurel Murdoch, librarian; Diane Daly and Chet Chan, word processing and production.

Special acknowledgement must be given to the work done by Marie Corbett, Legal Counsel to the Commission, in co-ordinating the whole of the Commission's endeavour, and to Gordon Milling, the Editor, whose painstaking efforts and advice to the Commission have been fundamental to the ultimate publication of the report.

For co-operation from the public and interested parties on all sides, the Commission is grateful.

Donna J. Haley, Q.C.

Summary Report: A Plan for the Future

Contents

General Conclusions

The Commission has found that there is at present no system for retirement income provision in either Ontario or Canada. There are a number of government programs which overlap in coverage or which have different goals in their design. These programs when coupled with employment pension plans, Registered Retirement Savings Plans, and informal retirement savings undertaken by individuals result in some receiving too little and some receiving more assistance than needed in retirement. This creates dissatisfaction, poverty for some, and some waste of taxpayers' money. There is great need, therefore, to view all retirement income provision as a system; to analyze the place and effectiveness of each type of provision in the system; and to assess the overall result against some well-defined principles and objectives. In undertaking this assessment, the Commission has been obliged to consider programs which are beyond the legislative competence of the Province of Ontario and to make recommendations accordingly. We trust the Government of Ontario will be able to convince the federal government and the other provinces that there is an urgent need to co-operate to provide adequate assistance for our retired population, with a maximum of benefit for the funds committed.

The Commission is of the opinion that the Government of Ontario should view the provision of retirement income as a combined responsibility of the individual and government, and take steps to encourage and support initiatives which will result in a retirement income system made up of government programs, employer-employee arrangements regulated by government, individual plans encouraged by government support, and personal savings.

In concluding that Ontario should seek a system of retirement income provision for its residents the Commission believes that government should design social programs to achieve two goals:

- *to guarantee a minimum level of retirement income below which no person's income is permitted to fall;*

- *to replace a measure of pre-retirement earnings in retirement.*

A system designed to meet these objectives need not and should not deny the primary responsibility of the individual to use his or her own best efforts to provide for the retirement years. We recognize, however, that some will always be unable to make adequate provision without direct government support; and most require a program or programs within which a portion of current income is regularly set aside for retirement purposes. In the latter category we may expect some measure of compulsory participation, as in the Canada Pension Plan, if only because such a program cannot work on any other basis. At the same time, there remains ample room for individuals to make their own arrangements for income in retirement according to their particular needs and lifestyles. The Commission sees a positive social value in preserving and, where possible, enlarging the area of individual discretion in planning for retirement. Accordingly, it is desirable that government use its power to extend certain incentives and opportunities for individuals to save and thereby allow them to take responsibility for part of their post-retirement living standard.

For an efficient and effective system, government should strive to co-ordinate the several elements of retirement income (universal programs, income-tested programs, earnings-related plans, and incentives for individual saving) and avoid well-meaning but costly duplication of assistance and administrative effort. The Commission has observed too little evidence of a systematic approach in the present array of programs and concessions for the elderly.

The Commission has examined the adequacy of existing government programs (including those at the federal level since these are integral elements in any retirement income system) and recommends changes to allow achievement of the guaranteed minimum income goal. The Commission's concept of "available income," used in the report, is a technique for assessing the value of non-monetary benefits in money terms. Its conclusion of what is adequate for January 1, 1979 should not be applied to 1980 or 1981 without allowance for increases in the Consumer Price Index. One must be careful to distinguish between the basic adequacy level and its indexing component.

In addition to Old Age Security, income replacement in retirement is now provided through the Canada Pension Plan, employment pension plans, and other less formal arrangements. The CPP provides a reasonable amount of replacement income, especially for those in the lower income ranges, and any balance required is left to employment pension plans and individual arrangements.

Employment pensions are widely criticized for failing to do the job required of them. It is clear to the Commission that employment pensions alone should not be expected to fill the gap in income replacement. They are only one way of doing so. Too often the assumption is made that changes in these pensions, perhaps by government action, is the complete answer to any lack in retirement income provision. Thus, for instance, there are demands for indexing of all employment pensions through government compulsion or guarantee.

Employment pensions as currently designed are criticized on two major grounds: lack of coverage and lack of portability. The more difficult of these to answer is portability. The concept of portability in the context of employment pension plans is widely misunderstood. In the Commission's opinion it is impossible to achieve portability in a system of individual employer plans. The only recourse is to a universal, compulsory plan, which will solve not only the portability problem but the coverage problem as well.

The same conclusion was reached when the Canada Pension Plan was launched in 1966. The Canada Pension Plan has worked well to supply a measure of replacement income as contemplated in our second goal for government. It is natural therefore for many to advocate its expansion to make up for the short-comings of employment pensions. Difficulties in financing the CPP, however, have led many to question the advisability of expanding the system and compounding the difficulties for future generations.

The Commission studied and rejected the proposals for both expanding and fully funding the CPP. It does not, however, abandon the concept of a compulsory plan for all workers. In the opinion of the Commission the Government of Ontario should adopt without delay a provincial universal retirement system (PURS), with a money-purchase design, to provide a reasonable amount of replacement income, on an earnings-related base, in a compulsory, portable, universal and fully funded plan, with individual choice for investment and forms of benefit. Such a system will provide funds to the private capital markets. It could be integrated easily with similar systems adopted by other provinces, and so provide a network of portability across Canada.

With such a plan the goal of replacement income can be met for those working at or below the Average Industrial Wage who form the bulk of Ontario's working population, and for whom the government, as a matter of social policy, has a particular concern in retirement. Employment pension plans and other arrangements are then free to develop in a supplementary role, and to accommodate individual wants and preferences. Co-ordination of PURS with existing elements of retirement income will provide a system of benefits for those retiring in the future.

Difficult issues arise from the plight of many of today's elderly who spent their productive years in low-paid employment, with no opportunity to set aside monies for retirement either as individuals or as members of employee groups. Many were also too far along in their working careers to benefit much from the Canada Pension Plan. In even worse plight are workers' survivors (mostly women) among today's elderly. Survivor benefits from employment pensions are often either pitifully small because they are a percentage of a small pension, or non-existent. The government's guaranteed minimum level of retirement income allows them to survive, but their quality of life is severely limited.

This state of affairs brings demands for improvements in the Canada Pension Plan, improvements in survivor benefits in both the CPP and employment pension plans, and coverage of unpaid workers under the CPP. The Commission has considered carefully both the problem and the proposed answers, but finds these proposals wanting because they would not solve the problems of today's elderly. Before considering changes that might enhance the incomes of future survivors of CPP participants, it is essential to recognize the immediate needs of today's elderly who could not hope to benefit from those improvements, however generous. The answer, barring fundamental remodelling of the CPP, is to be found in the income-tested supplements provided under the Old Age Security Act and through ancillary guarantees at the provincial level. What is needed, if the standard of living of today's elderly is required to be improved, is a direct increase in money payments through the Guaranteed Income Supplement (and in Ontario, GAINS). Such increases would go to the very heart of the problem now. Such a policy would also leave the other retirement income arrangements intact, to make proper provision in the future as they have been designed to do. The GIS eventually will decline in importance as the benefits from other arrangements build up, but will never completely disappear. In the Commission's opinion, improvements based on actual need are required. Improvements in universal payments, such as the OAS, may provide monies to those who do not need them and thus dissipate resources which could be paid through GIS to the special group of today's elderly. Once again the need to avoid patchwork measures is underlined; but that is not to say we should sit idly by and see today's elderly suffer from circumstances they could neither foresee nor provide against.

In examining the role of employment pensions, the Commission has looked beyond the question of coverage to the likelihood that those who do become members of such plans will in fact receive the promised benefits. Since the mid-1960s legislation in the federal and most provincial jurisdictions has attempted to improve vesting and solvency of pension plans in both the private and public sectors; but it is still true that most workers who move from job to job several times during their careers will lose a large portion of the potential pension offered by the plans they may have joined. Part of the problem arises from the most common plan design: the defined benefit. This design is capable

of providing satisfactory levels of pension for those having long and continuous service with the same employer; but those requirements - unexceptional as they may have appeared a generation ago - are increasingly unsuitable in terms of today's mobile work-force. Inadequate vesting may result in a worker's receiving no retirement income at all; but even with full vesting, the amounts payable on retirement will seldom reflect the person's real income toward the end of his or her career. Because this problem cannot be alleviated by requiring earlier vesting, it does not lend itself to solution by a simple change in the existing statutory vesting rule of age 45 and 10 years' service. If the defined benefit plan is to continue to play a part in the scheme of employment pension plans - and therefore part of the system we envisage - it must be regulated so as to provide a more meaningful measure of vesting - as well as earlier vesting - and also be thoroughly explained to plan members.

Pension wind-ups, voluntary and involuntary, have raised questions about the adequacy of the solvency provisions in regulatory legislation. Proper funding is required so that the promised pensions will be paid, regardless of the continued existence of the employer. Even where the legal requirements have been met, however, some of the promised benefits may not have been completely funded at a given time and so cannot be assured if the plan is discontinued. Failure to realize this limitation on pension entitlement causes disappointment and bitterness. The Commission believes that a clear disclosure of funding realities to plan members will alleviate the problem by encouraging pressure for change through the bargaining process. The alternative of a government guarantee of pension entitlements is not one the Commission would endorse. Use of government guarantees, paid for by all taxpayers, to support contracts entered into voluntarily, seems to the Commission an inappropriate use of government authority - even if employment pension plans were universal and not limited to about 50 per cent of the work-force. Other possible measures include adoption of a completely different approach to funding, with solvency to be maintained on a wind-up basis rather than on the assumption that the plan sponsor and the plan itself will continue indefinitely. A possible but less desirable approach is to curtail the use of defined benefit plans and move to money-purchase plans which by definition are fully funded.

The Commission recognizes the continuing inroads of inflation on fixed incomes. The objective of replacing income and so ensuring a certain standard of living in retirement requires a definite answer to this problem. The Commission supports indexing as it currently exists in government social security retirement income programs (OAS, GIS and CPP). It cautions however against the view that all retirement income must be indexed - particularly if any degree of compulsion is to be placed on the sponsors of employment pension plans to provide indexed benefits, with or without government assistance. Again, these pension plans cover only a segment of the population. Any government intervention should be on a universal basis. The desirability of providing

some inflation protection for all retired persons is reflected in the Commission's recommendation, from which one Commissioner dissented, for an Inflation Tax Credit, to apply to a broader range of sources of retirement income.

A retirement income system must also avoid inequities among the participants in the system. In general, women have fared less well than men but often for reasons which are imbedded in social and work-force structures. Changes to bring about a system should take account of such inequities.

One of the more controversial recommendations of the Commission will be its recommendation for the use of unisex mortality tables in calculating annuity rates for PURS. The premise is that women should receive the same monthly income payments as males from identical cash accumulations in any mandatory government plan such as the PURS plan recommended by the Commission. Any other result from government compulsion, would, in the Commission's opinion, be unacceptable. For this reason the Commission's recommendations on the use of unisex tables for the PURS annuities was unanimous.

More controversial still, and recommended by only three of the five Commissioners, is the use of unisex tables in the calculation of annuity rates for all money-purchase employment pension plans and RRSPs, which are based on lump-sum accumulations.

The question of retirement age is one of general concern. The Commission has considered retirement age for government programs separately from retirement age in other arrangements. All government retirement income programs and the Canada Pension Plan now employ age 65 for eligibility for benefits. In the Commission's opinion any change to lower this age should be made in concert for all programs. The social and economic consequences of such a move would have to be carefully considered before it is undertaken.

Retirement age in employment pension plans should move towards greater flexibility for the individual. Most employment pension plans now provide early retirement options on an actuarially reduced basis. The Commission believes these options should be available to all plan members from age 60.

Whether or not the right to work is protected through amendments to the Ontario Human Rights Code or the Employment Standards Act beyond the age of 65 is not primarily a pension matter. The Commission takes no position on the elimination of mandatory retirement as such. However, if the age is set above 65 and as a result pensions accrue fully before actual retirement, the pensions should be actuarially increased accordingly.

Employment pension plans for Ontario public sector employees provide the best overall benefits of employment plans in general. They also suffer from the same problems of vesting and portability as the private sector plans, although offset in a significant degree by reciprocal transfer agreements. The Commission endorses two main principles for these plans:

- *public sector employee plans should be subject to all requirements of the Pension Benefits Act as are private sector plans;*

- *the government should not lead the private sector by providing pension benefits which, taken as a whole, are more generous than those provided in private sector plans.*

The greatest concern the Commission has for the public sector plans is the present lack of overall government control of the present and future cost of pensions for its employees. Some comparability basis for data is needed to assess the cost of each plan in relation to the others, and some central authority is needed for the purpose of controlling the total cost. A fair allocation of total cost between employer and employees is also needed. The Commission has made specific recommendations for the control, allocation, and containment of costs. It cautions, however, that if firm overall control cannot be established now, consideration should be given to changing to a money-purchase design for these plans.

Throughout its investigations the Commission has been concerned about cost-benefit relationships, which are equally important in all elements of a retirement income system. If true costs are determined, then it is possible to decide whether or not a benefit is too costly. If indexing is costly, is it too costly in relation to the need for indexing all (or part) of a person's retirement income? Is some other benefit more urgent? The Commission believes that through disclosure to plan members much can be achieved in adjusting the elements of a system to the needs of the individual if full costs are related to benefits in the bargaining process.

Retirement income costs affect the competitiveness of the economy. At the same time, to the extent retirement income arrangements involve large accumulations of capital, they have a significant impact on capital markets and on the economy. The temptation is to regulate retirement income vehicles in such a way that they become an economic tool. The Commission believes that a retirement income system should be built first to provide the best retirement income at the lowest cost and with appropriate security. However, the benefit to the economy of such a system should not be ignored. The Commission has rejected full funding of the CPP because of the enormous capital accumulations which would result - all of which would be available to governments under the present arrangements. We are recommending instead, a fully funded provincial retirement savings plan for all workers which will provide

capital to the private markets. If such capital is used to increase productivity, the whole economy will benefit. Retirement income benefits will increase as a result of real growth and not simply by a transfer from the active work-force to the retired population.

Because of its considerable size, this report will be read in its entirety by only a few; others may find only a few sections relevant to their particular interests. It is the hope of the Commission, however, that the main thrust of its conclusions will stand out clearly from the detailed analysis. The following three points, in the opinion of the Commission, constitute the essence of its thinking at the close of its deliberations:

- There is a need for a retirement income system which will rationalize government, employer, and individual plans for retirement income. The starting point for such a system must be the individual; only then will it be possible to determine what roles are appropriate for governments, employers, and other organizations. We have noted throughout the report the patchwork effect of unco-ordinated initiatives which result in unequal treatment for those in retirement and waste of our resources.

- Individual planning for retirement income starts with information about the components of that income. Without full and accurate information, no individual can be expected to judge how much should be saved from current consumption or in what way savings should be used to achieve the desired objective at retirement age and afterward. Disclosure of all relevant information therefore is essential, not only for individual arrangements such as RRSPs and annuities, but also for the more complex group plans: employment pensions and the Canada Pension Plan. Only when the individual is well-informed is it realistic to speak of measures to expand the area of individual choice in providing for retirement income. This proposition is equally true whether the freedom to choose is exercised in a purely personal way, for example in deciding how to use one's own savings; through a particular group, as in making one's preference known for a type of employment pension plan; or as a voter, in supporting a political party on the basis of the social programs it has implemented or promises to introduce.

- In the interest of equity in every aspect of an overall system, cost-benefit relationships must be recognized, in both the design of a particular plan and the interrelationship of that plan and other components of the system. Planning must take into account long-run as well as short-run costs, so that each generation will know that its contribution and benefits are fair in relation to those of succeeding generations. Short-run solutions must be avoided if they are likely to jeopardize the

right of tomorrow's workers and taxpayers to economic security before or after they retire.

In the system put forward by the Commission in its recommendations the two goals of government will be achieved by OAS and the income-tested programs which will provide a guaranteed retirement income, and by the Canada Pension Plan and the provincial retirement savings plan, which will replace a measure of pre-retirement earnings. Together with improvements recommended by the Commission for employment pension plans and incentives for individual savings, we may look forward to a system which will deliver retirement income in the best and most equitable way.

To assist the reader, a tabular presentation of the Commission's Plan for the Future based on its recommendations, and a guide to the recommendations themselves follow.

Sources of Retirement income	Gross income replacement levels (per cent of Average Industrial Wage)	Retirement Age	Indexing	Funding	Investment	Regulation
Old Age Security	10-15	65	Fully to CPI	Pay-go	N/A	Federal
Guaranteed minimum income (for those with little or no income from CPP, etc.) through GIS and GAINS		65	Fully to CPI(a)	Pay-go	N/A	Federal and provincial
Canada Pension Plan	25	65	Fully: to AIW pre-retirement, to CPI post-retirement	Pay-go	Guaranteed securities of provincial Crown agencies	Federal and participating provinces
Provincial Universal Retirement System (PURS)	15-20	65	Participating annuity option; Inflation Tax Credit	Fully funded	Private sector, employee control	Provincial
Total Gross Income Replacement	50-60					
Free OHIP and Drug Plan; Ontario tax grants		65	N/A	Pay-go	N/A	Provincial
Employment pension plans (private and public sector)	May or may not be integrated with CPP and PURS; 70% maximum of pre-retirement earnings	As per plan; option from age 60, actuarially reduced	Participating annuity option or part of pension promise; Inflation Tax Credit	Provisionally to fully funded	Private sector, employer control	Provincial control with federal through taxation
RRSP	Maximum contributions: $5,500 if no pension plan; $3,500 if pension plan member	60-71	Participating annuity option; Inflation Tax Credit	Fully funded	Private sector, individual control	Federal through taxation
Other individual arrangements		N/A	N/A	Fully funded	Private sector, individual control	Federal through taxation if applicable

a GAINS is not indexed but the guarantee level has been increased periodically with increases to OAS and GIS.

Guide to Recommendations

* Where no recommendation number appears, see separate listing.

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Part I

Government Retirement Income Programs

(Volume I)

The Commission examined the income and benefits provided for the elderly by government programs and found:

(i) The governments of Canada and Ontario guarantee a monthly income (at January 1980) indexed quarterly to the increases in the cost of living amounting to $371.06 for an individual and $722.12 for a couple aged 65 and over.

(ii) This income is provided to those aged 65 and over by: Old Age Security (OAS); the federal Guaranteed Income Supplement (GIS); Ontario's Guaranteed Annual Income System (GAINS) which provides income to low-income pensioners. The Canada Pension Plan provides income to retired workers. In addition, government programs provide a wide range of benefits: some are available to all aged 65 and over (OHIP coverage and prescription drugs without charge, Ontario tax grants, and income tax age exemption); and some are available on an income-tested basis (pensioner property tax relief, subsidized housing).

(iii) Income from government programs is protected against inflation, with OAS and GIS indexed quarterly to increases in the cost of living as measured by the Consumer Price Index (CPI), and CPP indexed annually. GAINS levels reflect increases in OAS and GIS and are increased from time to time.

(iv) The majority of today's elderly rely on government programs for their income in retirement.

GENERAL RECOMMENDATIONS

The Commission makes the following general recommendations for government retirement income programs:

> Recommendation 1. The governments of Canada and Ontario should continue to guarantee a minimum level of income to all persons 65 and over sufficient to provide an adequate amount of income to allow them to participate in Canadian society.

> Recommendation 2. The income provided through OAS, GIS, and CPP should continue to be protected against inflation.

> Recommendation 3. The Government of Ontario should resist any move towards increasing existing benefits for the elderly now provided on a universal basis. Allocation of monies to provide income or services in retirement should be directed towards those in need.

> Recommendation 4. An approach should be adopted for all social assistance in Ontario to reflect actual rather than assumed need.

> Recommendation 5. The Government of Ontario should maintain the age of 65 as the age at which provision of retirement income or services on the basis of need is made available out of government resources, with any future change in the eligibility age to be made in concert for all government programs providing retirement income.

EFFECTIVENESS OF GOVERNMENT PROGRAMS

Adequacy

The Commission assessed the adequacy of the benefits available from government programs to persons age 65 and over resident in Ontario, and found that at January 1, 1979, the income guaranteed to a single person with little or no other retirement income was inadequate while the income guaranteed to a married couple was adequate. For January 1980, the Commission found that the minimum adequate level of retirement income should be $5,368 yearly ($447 monthly) for a single person aged 65 and $9,201 yearly ($767 monthly) for a married couple both 65. The Commission therefore makes the following recommendations:

> Recommendation 6. A well-defined standard should be adopted to determine the adequacy of income levels from all government income programs, whether or not the programs provide income in retirement. The standard suitable for determining the adequacy of levels of income should apply to all types of

beneficiaries and should reflect economic conditions affecting all the people of Ontario at the time the standard is applied.

Recommendation 7. Adequacy of income should be assessed in terms of "available income;" that is, after-tax dollars plus the value of other additional benefits. "Available income" in retirement is the total income dollars received from all government programs less income tax (if any) calculated using age 65 exemptions and other applicable exemptions and deductions, plus the value of Ontario tax credits.

Recommendation 8. In setting a minimum level for adequate income, the principle should be endorsed and implemented that a single person age 65 and over needs more than one-half the amount needed by a married couple both 65, such additional amount being one-sixth of half the amount required by a married couple both 65.

Recommendation 9. For years after 1980, the Government of Ontario should consider adopting a standard linked to the minimum wage in Ontario for determining the adequacy of the level of income provided by government programs. For example, such a minimum could be based on 70 per cent of twice the minimum wage for a married couple both 65, and about 60 per cent of the resulting amount for a single person, such amounts to be interpreted as "available income" and not as gross amounts.

Recommendation 10. The level established as adequate as determined from time to time by reference to the minimum wage standard should be increased on a yearly basis to reflect annual increases in the Consumer Price Index for periods between which there is no change in the minimum wage. When changes in the minimum wage are made, the standard should be assessed from time to time having regard to all the effects such change may have on the people of Ontario and the economy of Ontario and not just to the effect of changes in the Consumer Price Index on the minimum level for adequacy.

Recommendation 11. Net replacement ratios for those in lower income ranges should be greater than for those in higher income ranges.

Recommendation 12. Assistance to low-income persons aged 65 and over should be through money payments where feasible rather than through increased services.

Inequities

While the Commission found that government programs provided a high degree of coverage and protection from inflation, it found the following inequities:

(i) In determining eligibility for government income-tested programs, some benefits such as Workmen's Compensation payments and veteran's pensions are not taken into account, so that income for the test purposes is understated.

(ii) The Spouse's Allowance program provides benefits to spouses (aged 60-64) of pensioners age 65 and over as if that spouse were age 65. It provides unequal treatment of unmarried and widowed persons aged 60 to 64 compared with those in the same age group who are married to pensioners. It also provides no benefits for pensioners whose spouses are under age 60.

Therefore the Commission recommends as follows:

Recommendation 13. In determining eligibility for government income-tested programs and the amount of income provided, all income should be taken into account, including Workmen's Compensation benefits, veteran's allowances, and family allowances.

Recommendation 14. The Government of Ontario should seek the phasing-out of the Spouse's Allowance program. Those requiring income assistance under age 65 should be cared for under the Family Benefits program or similar programs under the Canada Assistance Act.

ROLE OF ONTARIO

Although much of the administration of social security programs covering Ontario residents falls within federal jurisdiction, Ontario is in a position to adapt its own programs to give effect to the Commission's recommendations. The Commission therefore makes the following recommendations:

Recommendation 15. The Government of Ontario should give effect to the recommendations of the Commission by amending its own income-tested programs, tax system, and programs providing benefits for the elderly.

Recommendation 16. The Government of Ontario should resist any attempt to extend new services for those 65 or over, free or at reduced cost, on a universal basis, and move toward the provision of services on the basis of need only.

Recommendation 17. No steps should be taken to broaden any existing Ontario programs, such as the Ontario Tax Credits, except for the addition of an Inflation Tax Credit, (Recommendation 136), or to adopt any new assistance programs based on chronological age alone unless eligibility for these is based on real need and not on an assumed need or

a need artificially created by ignoring payments actually available to the recipient to satisfy need.

Recommendation 18. Programs providing benefits on the basis of need, including all income-tested programs and income-tested tax exemptions and credits, should take into account all income to eliminate double payments.

AMENDMENTS TO GOVERNMENT PROGRAMS

In order to attain adequacy levels determined by the Commission and to remove inequities ascertained by the Commission's assessment of the adequacy of retirement income from government programs, these programs should be amended as indicated in the following recommendations:

Old Age Security (OAS)

Recommendation 19. The Government of Ontario should seek amendments to the Income Tax Act to tax back at a 100 per cent rate payments of OAS for those persons having a net taxable income in the year as defined under the Income Tax Act, of $30,000, with suitable notch provisions so that the resulting tax backs will not decrease net taxable income below $30,000.

Guaranteed Income Supplement (GIS)

Recommendation 20. The Government of Ontario should by negotiation seek to increase basic payment levels of the Guaranteed Income Supplement to remedy any inadequacy in the level of "available income" received by single persons and to implement the recommended ratio between single and married persons so that the single person receives about 60 per cent of the amount that a married couple receives.

Guaranteed Annual Income System (GAINS)

Recommendation 21. Until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made. (January 1980 "available income" adequacy levels: single person, $447 monthly; married couple, $767 monthly).

Recommendation 22. The Government of Ontario should adopt and implement in all programs the principle that single persons aged 65 and over need about 60 per cent of the income required by a married couple.

Recommendation 23. Except for changes in the level of benefits, maintaining a proper single to married couple ratio, and in assessing all income to determine benefits, the Government of Ontario should continue to operate GAINS on the principles now embodied in the legislation, and GAINS payments should continue to be financed from the Consolidated Revenue Fund.

Part II

Ontario and the Canada Pension Plan

(Volume V)

FINANCING THE CANADA PENSION PLAN

The Canada Pension Plan is an earnings-related contributory social insurance program designed to provide all workers with retirement income up to a maximum of 25 per cent of the average industrial wage. Although operated by the federal government, the plan is essentially a federal-provincial undertaking. Because the CPP amending formula requires that any major change be approved by two-thirds of the participating provinces (all except Quebec) having two-thirds of the covered population, Ontario is in the unique position of having an effective veto. As a result, and in view of the significant amendments that have been or are likely to be proposed, Ontario's responsibility - to assess fully the social and economic impact of the plan and make its conclusions known to the other governments - has been a prime concern of this Commission.

The Commission studied the financing of the CPP in depth, and made extensive projections on a variety of demographic, social and economic assumptions. Among its conclusions are:

The Elderly Population

(i) *The population of Canada aged 65 and over will increase from 7.9 per cent of the total population in 1970 to 10.7 per cent in 2000 and 14.5 per cent in 2020. A similar increase may be expected for the population of Ontario.*

(ii) *The "dependency" ratio of the elderly population to the working population (aged 20-64) increases between 1970 and 2050. The total dependency ratio (young and old dependents combined) declines markedly between 1970 and 1980 and gradually from 1980 to 2010. Even with a higher dependency*

cost for the elderly than for the young, the dependency burden is not excessive and is not a cause for alarm. An upturn in the total dependency ratio is evident only in 2020, giving governments 30 years of lead time to make plans to meet the requirements of an increased number of dependents.

Funding

(iii) The present contribution rate of 3.6 per cent of contributory earnings up to the YMPE is a partial funding approach which has resulted in a fund build-up of $14.3 billion by 1978. Funds not required for current payment of benefits have been borrowed by the participating provinces and are repayable with interest.

(iv) On this partial funding basis, the cost of benefits and expenses will equal contributions in 1986, and the cash flow to the provinces will cease unless contributions are increased. In 1991 all of the interest payments will be required to pay benefits, and if contributions are not increased the CPP fund will start to decline. By 2001, the fund will be exhausted.

(v) On a pay-as-you-go basis, where benefits are paid as they fall due without any assets being accumulated, the 3.6 per cent contribution rate covers the benefit payments until after 1985. The cost would rise steadily thereafter to a peak of 9.28 per cent in 2030.

(vi) With full funding (i.e., level premium funding with unfunded actuarial liabilities at 1980 amortized over 50 years) the contribution rates would be required to increase to 12.53 per cent in 1980. The fund would increase from $25 billion in 1980 to $712 billion in 2000 and $8.86 trillion in 2030.

Perceived Problems

(vii) The potential exhaustion of the fund with the spectre of disillusioned retirees is a fanciful scenario given prominence by the press. This has resulted in unwarranted anxiety. That the fund would be exhausted sometime in the future at the present contribution rate was understood from the outset. The CPP is not thereby bankrupt; but it will soon be necessary, as originally contemplated, to settle on a schedule for changes in the contribution rates.

(viii) The possibility is asserted, based on low birth rates, that the number of workers available to support the retiring

baby boom, starting about 2010, will be insufficient and will result in a refusal to pay onerous contribution rates. A subsidy to retirees is now paid for by today's workers and accepted on the basis of a social contract that generations making contributions acquire rights to contributions of future workers. Our studies show that in reality the presence of the baby boom population results in a declining pay-go cost for the CPP. Only in 2030 does the baby boom cause increased cost. By 2050 the effect of the baby boom will have disappeared. The intergenerational transfer is neither as great nor as sudden as some commentators allege.

(ix) A pay-as-you-go public pension plan does not appear to result in lower personal savings with a resulting loss of capital to the economy.

<u>Full Funding</u>

The Commission does not recommend full funding for the following reasons:

1. *Contribution rates would have to be increased to 12.53 per cent from 1980 to fund the plan, including amortization of the present unfunded actuarial liability of the CPP over 50 years (on a level premium basis) and to fund the plan as would be required in a private sector employment pension plan. The rate would continue at 12.53 until 2030 when it would drop to 9.66 per cent. Such a large and abrupt increase now would create dislocation through increased employer costs and disincentives for individuals to save. Increased contribution rates would lead to pressures to increase benefits.*

2. *The fund would be enormous, increasing from $14.3 billion in 1978 to almost $9 trillion in 2030. Canada's foreseeable capital requirements cannot accommodate investment of such large amounts.*

3. *Large amounts would become available for increased provincial government spending. Control of the funds through quasi-independent government agencies is no guarantee against future government intervention.*

4. *The CPP's prime role should not be that of an economic tool to control the Canadian economy.*

The Commission believes that a pay-as-you-go funding basis is compatible with the social security design of the Canada Pension Plan. It therefore makes the following recommendations:

Recommendation 24. The Canada Pension Plan should be funded on a pay-as-you-go basis, with a contingency fund maintained at the level required to satisfy twice the year's benefit and administrative cost pay-out three years in advance.

Recommendation 25. The existing combined contribution rate of 3.6 per cent should continue unchanged until such time as the existing fund is reduced to the level required to satisfy twice the year's benefit and administrative cost pay-out three years in advance.

Recommendation 26. When an increase in contribution rates on a pay-as-you-go basis is required there should be a gradual phasing-in of increases to approximate pay-as-you-go rates by setting contribution rates six years in advance of such changes, to maintain a contingency fund at all times equal to twice the year's benefit and administrative cost pay-out three years in advance.

Recommendation 27. Until the existing fund is reduced to the level required by the recommendations, the CPP fund should be operated on the Fund C basis outlined in Statutory Actuarial Report No. 6 for the CPP, with actual payment of interest on borrowing to be made after excess funds above the level required to satisfy twice the year's benefit and administrative cost pay-out three years in advance are no longer available for lending to the provinces.

Recommendation 28. The CPP fund should be operated on the Fund C basis so that no repayment of capital of the fund is required from the provinces except on a call basis (subject to investment of the capital as required in Recommendation 30) to satisfy the purposes of the contingency fund.

Recommendation 29. There should be no increases to the benefit formula under the CPP without an increase in contribution rates on a pay-as-you-go basis with a contingency fund to satisy twice the year's benefit and administrative cost pay-out three years in advance, to cover the full cost of such increased benefits without regard to any excess funds on hand resulting from existing funding procedures.

INVESTMENT RECOMMENDATION

Present investment procedures have been criticized for giving the appearance of producing only a "ghost fund" and for providing an investment return to the fund that is lower than market rates. The Commission believes it important to provide a fund with tangible marketable assets, requiring scheduled repayment. Such investment of

the fund would in turn produce market rates of return. The Commission therefore makes the following recommendation:

> Recommendation 30. The investment structure of the CPP should be altered to ensure the receipt of market rates of interest on the capital of the fund and to ensure a control of investment through links with normal market practices, by adopting the following procedures:
>
> a) upon maturity of existing provincial undertakings, commencing in 1986, each obligation should be replaced with a twenty-year negotiable bond with a fixed maturity date issued by a provincial Crown corporation, guaranteed by the province and accompanied by a certificate of the treasurer of the province that the proceeds of such bonds are being used,
>
> (i) to invest in fixed assets of the provincial Crown corporation, or
>
> (ii) to refinance outstanding debt of the provincial Crown corporation originally used to finance acquisition of fixed assets;
>
> b) the interest rate on such new securities should be at the market rate determined by the average rate prevailing in the twenty preceding trading days on outstanding long-term debt, issued by or guaranteed by the province, denominated in Canadian dollars; or struck by reference to
>
> (i) the average of interest rates on all outstanding debt issued or guaranteed by participating provinces, weighted according to CPP contributions in the year of calculation, or
>
> (ii) the average interest rate on outstanding debt issued or guaranteed by the province concerned, with the treasurer of the province having the right to elect between (i) and (ii);
>
> c) all funds declined by the provinces in any month should be invested in 90-day treasury bills of the province concerned, or of the federal government if no provincial bills are available, until such time as the province takes up the funds against the securities of a provincial Crown corporation as stipulated in a).

BENEFIT FEATURES

Many of the briefs to the Commission urged changes in the existing benefit structure of the CPP. Some advocated improvements such as an increase in the percentage rate for survivor benefits; others sought alteration of the basic framework of the plan, such as a change from an earnings-related plan to one which would include unpaid workers such as housewives.

Except for the recommended adoption of the child-rearing dropout provision, the Commission does not favour major changes in the benefit structure of the plan. It therefore makes the following recommendations:

Recommendation 31. The Government of Ontario should support the continuation of the CPP on its present compulsory and "earnings-related" basis and resist any extension of coverage to unpaid workers.

Recommendation 32. The Government of Ontario should approve the amendment of the CPP for the child-rearing dropout provision as now legislated, to take effect without delay.

Recommendation 33. Benefits payable to the survivor of a deceased contributor in receipt of retirement benefits should continue to be approximately 60 per cent of the pension benefit of the deceased contributor, and the Government of Ontario should resist any extension of the existing survivor benefits.

Recommendation 34. The Government of Ontario should take no steps to extend the principle of credit-splitting upon dissolution of marriage to create a division of credits during marriage.

Recommendation 35. The Government of Ontario should resist any steps to increase the existing levels of retirement benefits and survivor benefits under the CPP, or to alter the existing goal of 25 per cent of the Average Industrial Wage for those at the YMPE, and such benefits should continue to be financed by equal contributions by employer and employee. (See Recommendation 40 for a mandatory retirement savings plan).

Recommendation 36. The earliest age of eligibility for CPP retirement benefits should continue to be age 65, with any future change to be only in concert with all government retirement income programs.

Recommendation 37. The Government of Ontario should consider amendments to the CPP to provide a more effective, less complicated, and less time-consuming procedure for appeals as to both contributions and benefits under the CPP.

Recommendation 38. All CPP benefits should continue to be based on earnings indexed to the Average Industrial Wage and, after payment commences, should be indexed as at present to the Consumer Price Index.

Recommendation 39. No earnings test for retirement benefits should be reinstated in the CPP while age for eligibility for retirement benefits remains at 65.

Part III

Employment Pension Plans

(Volumes II and III)

THE NATURE OF EMPLOYMENT PENSION PLANS

As defined by the Commission, an employment pension plan is one financed by an employer or group of employers for the purposes of providing retirement income for employees. Our definition expressly includes plans operated by government as employer, but excludes the CPP and other "government programs." The Commission's discussion of employment pension plans deals with plans for employees in both the private and the public sector and the recommendations apply equally to both. In addition there are other recommendations which apply to the public sector alone. The latter are found in Part IV of this summary entitled Ontario Public Sector Employment Pension Plans.

An employment pension plan may be initiated and controlled exclusively by the employer, or may be the result of collective bargaining and involve a union in some or all aspects of administration. It may be a multi-employer plan, as are many in the construction industry; the same term may be applied to the Ontario Municipal Employees Retirement System (OMERS).

Employment pension plans are essentially voluntary in the sense that they are not imposed by law, except for certain statutory plans in the public sector. Generally, the size and type of the pension "promise" is a matter for the discretion of the parties directly concerned. Similarly, a plan sponsor may discontinue the pension plan. The employer's financial obligation, unless extended in some manner by legislation, is limited to those contributions that are required up to the time the plan is terminated.

Government regulation - since 1965 in Ontario - has been directed towards several outstanding problem areas in the field of employment

pension plans: principally those of portability, solvency and investment practices. Plans are also subject to certain rules set by the Minister of National Revenue for eligibility of pension plans for tax deductibility; one such rule is that a plan must be accepted for registration by the applicable provincial supervisory authority (or federal, depending on the jurisdiction).

If employment pensions are to continue playing a significant role in a retirement income system, it is important that they be encouraged and, where necessary, forced to serve their members effectively and fairly - and above all, to develop in such a way that the promises made today can be kept tomorrow. Many of the problems identified by the Commission, as will be seen, lend themselves to treatment within the general framework of the Pension Benefits Act. However, in order to be regulated under that act, a plan must first exist. Accordingly, it was the Commission's decision to start with an examination of the coverage problem - one which is clearly of greatest significance for nearly half of the Ontario work-force. Our recommendations on this matter are followed by those relating to employment pensions as they exist today and as they may be expected to perform their important role in the future.

COVERAGE - THE MANDATORY RETIREMENT SAVINGS PLAN

In order to evaluate the effectiveness of existing employment pension plans the Commission examined to what extent workers are covered by such arrangements, and found:

(i) 50.4 per cent of the work-force in Ontario are members of employment pension plans. Excluding public sector plans where coverage is 95 per cent, about 50 per cent of men and 22 per cent of women working in the private sector are covered by an employment pension. Such coverage is not likely to increase in the foreseeable future in the absence of government compulsion.

(ii) A million and a half paid workers of the work-force in Ontario are neither members of an employment pension plan nor holders of a Registered Retirement Savings Plan. Without such coverage, replacement of at least a measure of income in retirement above the minimum levels of the government programs and the Canada Pension Plan is not possible for most Ontario workers.

The Commission therefore makes the following recommendation:

Recommendation 40. The Government of Ontario should institute by legislation a mandatory retirement savings plan for all workers in Ontario aged 18 to 64 with the following features:

a) The Provincial Universal Retirement System (PURS) to be based on an individual account (money-purchase) design.

b) All contributions to be immediately vested and locked-in, with a refund of employee contributions to be available to those below the Year's Basic Exemption.

c) All monies accruing in individual benefits accounts to be completely portable.

Contributions

d) Contributions by employer and employee to be based on earnings up to the Average Industrial Wage (with YMPE and YBE the same as those of the CPP from year to year). Self-employed persons to contribute at the combined employer-employee rate.

e) Levels of contribution to be determined by the government, based on the percentage of AIW it desires to be replaced when the plan is mature, e.g., 15 to 25 per cent. Contributions to be divided equally between employer and employee except that employee contributions will be graduated. The lowest contributions will be made by employees between ages 18 to 30, higher contributions age 30 to 45, and full contributions age 45 to 65, but employer percentages will be the same for those aged 18 to 64. For example, employee contributions: age 18 to 30, 1 per cent of pay to the YMPE ceiling; 30 to 45, 1-1/2 per cent; 45 to 65, 2 per cent; employer, 2 per cent throughout; to provide about 20 per cent replacement, based on the Commission's most probable assumptions.

Benefits

f) The benefit, payable any time between age 65 and 71, to be in the form of a range of annuity options such as escalating and participating annuities; but where the employee at retirement has a spouse, the primary benefit must be a life annuity for the employee with at least a 60 per cent survivor benefit for the spouse, unless the spouse waives such benefit in writing.

g) If the employee dies before withdrawing funds, the estate to succeed to the funds subject to survivor benefits as recommended. (See Recommendation 53).

h) Annuities for male and female employees to be costed in such a fashion that equal monthly benefits will be provided for the same capital accumulation for males and females. (See Recommendation 105).

Deposit Vehicle

i) The employee to have a choice of financial intermediary for the investment of his or her contributions and those of the employer. Financial intermediaries to be those now eligible for Registered Retirement Savings Plans and a central pension agency to be set up by the Government of Ontario. (See Recommendation 52).

Investments

j) Funds to be invested in the same kinds of investment now permitted for pension funds in Ontario except that foreign investments would be excluded.

Administration

k) Contributions to be made by payroll deduction and remitted together with employer contributions through Revenue Canada (Taxation) in a fashion similar to CPP contributions, or to the Ontario central pension agency, and thence to the designated financial intermediaries.

Income Tax Deductibility

l) Contributions of employee, employer, and self-employed to be deductible for income tax purposes.

Opting-out of PURS

m) Employers may be allowed to opt out of PURS in strictly defined circumstances. (See Recommendation 107).

PORTABILITY AND VESTING

The Commission examined the effectiveness of pension plan membership by ascertaining the amount of retirement income participants are likely to receive. The Commission found:

(i) As plans are presently designed, to obtain full pension credits an employee must work for one employer for his or her entire worklife and the worklife must usually be an unbroken period of at least 35 years.

(ii) Job mobility decreases the likelihood of obtaining a pension because an employee may not satisfy the vesting requirements, that is, the rules governing the entitlement to a pension. Furthermore, vested pension benefits are not truly "portable."

(iii) Earlier vesting rules provide a partial answer to the problem inherent in the lack of pensions arising from job

mobility. Reciprocal transfer agreements and multi-employer pension plans provide limited portability for some employees.

The minimum vesting rule should be changed from the present rule of age 45 and 10 years of continuous service or plan membership. In order to achieve a reasonable balance between the needs of younger and older workers, the Commission favours a vesting rule based on service alone. The extent of the move towards immediate vesting is limited by the cost. The Commission believes that a decision on the degree of earlier vesting should take into consideration whether a mandatory plan will be instituted. The Commission therefore makes the following recommendations:

> <u>Recommendation 41</u>. If the Government of Ontario enacts legislation for a Provincial Universal Retirement Savings Plan, the Pension Benefits Act should be amended to provide that the minimum vesting in all employment pension plans be upon completion of ten years' continuous service with an employer or ten years' membership in the pension plan, and that there be no age requirement.

> <u>Recommendation 42</u>. If a mandatory retirement savings plan is not adopted, the Pension Benefits Act should be amended to provide that the minimum vesting in all employment pension plans be upon completion of five years' continuous service with an employer or five years' membership in the pension plan, and that there be no age requirement.

LOCKING-IN AND RIGHTS ON TERMINATION

Improved vesting, with or without a mandatory plan, will not solve the following problems which arise at termination of employment:

(i) In contributory employment pension plans, locking-in simultaneously with vesting creates disadvantages for terminating employees at young ages who may be purchasing the whole of the deferred life annuity with their own contributions. It is difficult for the employee to ascertain how much employer money, if any, is involved in providing the vested pension.

(ii) In all plans, there is no increase after termination in the value of the vested benefit, and the value of the life annuity will decline in real terms between termination and retirement.

(iii) Refunds for employees who terminate without vesting may include no interest or interest at low rates.

Whether or not a mandatory plan is adopted, rights on termination as set out in the following recommendations should be provided as minimum standards in the Pension Benefits Act:

> Recommendation 43. Upon termination prior to vesting an employee should be entitled to a refund of his or her own contributions with interest calculated at one per cent below the annualized rate paid by Canadian chartered banks on non-chequing accounts, compounded annually.

> Recommendation 44. Upon termination after vesting in a contributory defined benefit plan, the benefit accrued should be valued under the direction of the Pension Commission of Ontario to ascertain the cost of the benefit. Such cost should then be allocated one-half to the employee and one-half to the employer. The employee's accumulated contributions with interest calculated at one per cent below the annualized rate paid by Canadian chartered banks on non-chequing accounts, compounded annually, should be applied against one-half the cost, and any excess should be refunded to the employee. The balance of cost should be borne by the employer for the provision of a deferred life annuity at normal retirement age under the plan.

In the case of non-contributory plans, rights on termination would remain unchanged.

> Recommendation 45. The Pension Benefits Act should be amended to provide that upon termination an employee in a contributory plan, whether defined benefit or defined contribution, should have the right to elect to transfer the cost of one-half the locked-in pension benefit out of the employer's pension fund
>
> a) to his or her PURS account (if PURS is established);
>
> b) to a special locked-in vehicle similar to an RRSP, in his or her name; (see Recommendation 50)
>
> c) to his or her new employer's pension plan, provided that the new employer agrees to accept the transfer and also to hold the monies locked-in subject to transfers arising on any subsequent termination of employment.

In the case of non-contributory plans there would be no similar right to transfer.

> Recommendation 46. If the recommended rights on termination are adopted, there should be no government compulsion requiring the improvement of deferred benefits between termination and normal retirement under the plan.

Recommendation 47. Locking-in of employees' contributions in employment pension plans, subject to amended rights on termination as recommended, should continue to be simultaneous with vesting as legislated.

Recommendation 48. The Pension Benefits Act should be amended to remove the 25 per cent commutation privilege on termination.

Recommendation 49. Cash commutation of a deferred life annuity should be permitted where the monthly amount payable at normal retirement age is $25 or less, or such amount as may be determined from time to time by the Pension Commission of Ontario.

Recommendation 50. The Government of Ontario should make arrangements with Revenue Canada for the creation of a special locked-in vehicle similar in all respects to existing RRSPs except that no monies may be withdrawn other than for the purchase of an annuity or the operation of a Registered Retirement Income Fund. Section 16(1) of the Regulation under the Pension Benefits Act should then be repealed.

Recommendation 51. The Government of Ontario should amend the Pension Benefits Act to provide that upon transfer of the value of accrued pension benefits at the request of the employee to the special locked-in vehicle recommended, the employer shall have no further obligation under the pension plan to the employee for such accrued benefits.

CENTRAL PENSION AGENCY

In the Commission's opinion a central pension agency is necessary for the operation of a mandatory plan. Once established for this purpose, such an agency could carry out other useful functions such as those outlined in the following recommendation:

Recommendation 52. A central pension agency should be created by the Government of Ontario to fulfil the following functions:

a) to be an alternative investment medium to receive, hold, and invest monies as required for the recommended mandatory retirement savings plan (PURS);

b) to receive, hold, and invest pension monies arising from the exercise of recommended transfer rights on termination of employment;

c) to record future pension rights under employment pension plans for all terminated employees, to receive such data from employers, and to provide such data to plan members;

d) to co-operate with other jurisdictions in establishing a system to provide information on pension rights on a national basis.

SURVIVOR BENEFITS

The Commission favours an approach which would end discrimination on the basis of marital status in pension plans. The Commission endorses the attitude that over time there should be a move away from the assumption of need arising out of marital or quasi-marital status, and towards adoption of entitlement as the rationale. For the present, however, the Commission believes that the survivor benefits set out in the following recommendations should be required in all employment pension plans.

Death Before Retirement

<u>Recommendation 53</u>

a) Where an employee dies before retirement and before being vested, the estate should be entitled to a refund of his or her contributions with interest calculated at one per cent below the annualized rate paid by chartered banks in Canada on non-chequing accounts and compounded annually.

b) Where an employee dies before retirement, but after becoming eligible to receive a retirement pension either by attaining normal retirement age or by fulfilling the requirements for early retirement as provided in the plan, the spouse of any age should receive as a pension 60 per cent of the pension to which the employee would have been entitled had he or she actually retired under the plan.

c) Where an employee dies before retirement and after being vested but before becoming eligible to receive the pension, and leaves a spouse surviving, the spouse should receive as a pension 60 per cent of the pension to which the employee would have been entitled on retirement, payable when the older of the employee or the spouse would have attained or attains the age of 65 or the normal retirement age under the plan, whichever is earliest.

d) Where an employee dies before retirement and after being vested but before becoming eligible to receive the pension, and does not leave a spouse, or the spouse dies before receiving the pension provided in (c) above, the estate of the employee, or where the spouse dies after being entitled but before receiving the pension, the spouse's estate, shall receive the contributions of the employee with interest, or where applicable, the amount which would have been required at the employee's death to purchase the spouse's

pension by way of an insurance company annuity, whichever shall be the greater.

These provisions shall apply to both contributory and non-contributory pension plans.

Death After Retirement

Recommendation 54

a) All plans should provide, as the normal form of pension benefit under the plan, a joint and last survivor annuity with a choice of the percentage level for the survivor benefit of not less than 60 per cent and not more than 100 per cent of the original pension benefit. In the event the percentage level is not designated by the employee the percentage should be 60 per cent. The plan may provide for an actuarial reduction so that the cost of the retirement benefit to a person without a spouse and a person with a spouse is the same. The normal form should be taken under the plan unless another form of benefit available under the plan is elected by written consent of both the employee and the spouse.

b) Where an employee dies after the pension is in payment and without leaving a spouse, no benefit should be paid to the estate of the deceased employee unless the plan so provides.

INTEGRATION

While approving the principle of integration of some government program benefits with employment plan benefits, the Commission is concerned that employees receive the benefits which they have in fact paid for. The Commission therefore makes the following recommendations:

Recommendation 55. The Pension Benefits Act should be amended to provide:

a) prohibition for existing plans of reduction in benefits by reference to any increase in the level of Old Age Security payments, whether or not for increases related to the Consumer Price Index, above the levels set at the end of December 1979;

b) prohibition for new plans of reduction in employment pension plan benefits by reference to any benefit from Old Age Security;

c) prohibition of non-proportional methods of benefit offset integration for all new plans, and for all pensions from existing plans commencing on or after the date of coming into force of such amendment;

d) prohibition of integration by any method for all legislative amendments to the CPP coming into effect after January 1, 1980, resulting in a direct increase in benefit levels or increased employee contribution rates, if integration would have the effect of reducing the pension benefit to less than the value of the employee's benefits accrued in the employment pension plan to the date of such amendment, or than the value of the employee's contributions, whichever is greater;

e) prohibition of integration by any method for all increases in CPP benefit levels resulting from an increased YMPE after the year in which the YMPE equals or exceeds the Average Industrial Wage, if it would have the effect of reducing the pension benefits accrued in the employment pension plan to that date to less than the employee's benefits accrued to that date or than the value of the employee's contributions, whichever is greater.

Recommendation 56. Integration of employment pension plans with the mandatory plan recommended by the Commission should be permitted, provided that pension benefits accrued to the commencement of the mandatory plan should not be reduced by any payment from the mandatory plan.

Recommendation 57. For all plans, steps should be taken after an appropriate study by the Pension Commission of Ontario to ensure that any pension integration formula is consistent with the principle that the accrued rights of each employee be preserved, and that its operation is adequately explained to all plan members.

FUNDING

The Commission examined the financial soundness of pension plans in Ontario and found in general that pension plans had been setting aside sufficient funds to pay for pension promises. However, because problems exist in the funding structure of defined benefit plans, it is difficult to rely solely on experience to date in assessing the financial soundness of pension plans. Existing problems include:

(i) the flexibility available to the actuary, leading to a confusion of actuarial methods and assumptions and the virtual inability of a non-actuary to assess pension plan valuations with any precision;

(ii) wide differences in the amount of money accumulating, as a result of different actuarial methods;

(iii) the unlikelihood that sufficient improvement will come from within the actuarial profession;

(iv) insufficient funding in the event of a wind-up, particularly in flat benefit plans, as a result of the periods permitted for amortization of the cost of benefit improvements.

The goal of funding should be to provide sufficient pension funds to purchase or provide all pensions to retired employees, deferred pensions to all who have met the vesting qualifications, and the accrued pensions of active employees. Since a defined contribution plan is always fully funded, the funding problem is confined to defined benefit plans. Short of abolishing the defined benefit design to avoid funding complexities, there must be changes toward better control and more security.

The wide discretion left to the actuarial profession in the choice of assumptions and methods can produce widely divergent results, affecting the size of employers' contributions for current service and of the special payments toward unfunded actuarial liabilities. The degree of funding has important effects for plans which are wound-up before all liabilities have been paid.

The administration of employment pension plans under the Pension Benefits Act should therefore have as one of its dominant goals the financial protection of benefits promised to plan members. The degree of protection should be increased if the Commission's proposed mandatory plan is not adopted and if membership in a contributory pension plan is not made voluntary.

The Commission makes the following recommendations for the achievement of increased financial protection of plan members:

Actuarial Funding Methods and Assumptions

Recommendation 58. The Pension Benefits Act or its regulations should be amended to limit the choice of actuarial funding methods (as defined in Volume II, Chapter 9) to the following:

Accrued Benefit-unprojected
Accrued Benefit-projected
Level Premium-constant dollar
Level Premium-constant per cent of salary, entry age normal
Level Premium-constant per cent of salary, attained age normal.

The Aggregate Funding method and all other methods except the foregoing should be prohibited immediately for all new plans and be phased out within a reasonable time for existing plans.

Recommendation 59. The Pension Commission of Ontario should designate the plan types for which each of the permitted funding methods is appropriate.

Recommendation 60. The Pension Commission of Ontario should establish without delay, guidelines for the choice of actuarial assumptions by the actuary for a pension plan, directed to:

a) the appropriateness of the choice of actuarial assumptions and their internal consistency;

b) the incorporation of actual plan experience, where suitable, into the construction of tables for mortality and turnover rates;

c) the identification of the inflation rate and other elements making up the salary scale and interest rate assumptions and requiring internal consistency.

Actuarial Valuations

Recommendation 61. The Pension Benefits Act or its regulations should be amended to require actuarial reporting in compliance with guidelines set by the Pension Commission of Ontario. Such guidelines should take precedence over the standard now enunciated in Section 4b(1) of the regulations which requires actuarial reports to use assumptions and methods as determined by the actuarial profession.

Recommendation 62. The Pension Benefits Act or regulations or guidelines should be amended to permit the use of capitalized values for valuing fixed income securities only when the following conditions apply:

a) the securities are of high quality and low risk;

b) those securities held in the fund bearing interest at a rate below the actuarial assumed rate be written down in the same manner as those written up;

c) liquidity requirements of the fund permit the holding of such securities to maturity.

Recommendation 63. The Canadian Institute of Actuaries should be asked to undertake, in collaboration with the Canadian Institute of Chartered Accountants, the early development of a standard form of Actuarial Valuation Balance Sheet which will provide more meaningful information as to the funded status of the pension plan for disclosure to employees.

Recommendation 64. The Pension Benefits Act or regulations should be amended to require the filing of the Actuarial Valuation Balance Sheet in compliance with such standard form for disclosure purposes, or if such standard form is not established by the Canadian Institute of Actuaries within a reasonable

time, in compliance with such form or requirements as may be set by the Pension Commission of Ontario from time to time by regulations.

Recommendation 65. The Pension Benefits Act or regulations should be amended to require that all actuarial valuations (except for certain plans in the public sector) be filed on a triennial basis within six months of the fiscal year end of the plan rather than the present 12 months, and that, if necessary for enforcement, suitable penalties for default be introduced.

Recommendation 66. The Pension Benefits Act or regulations should be amended to require that all pension plans in the public sector, including the Hospitals of Ontario Pension Plan, having assets of $150 million or more, file an actuarial valuation annually with the Pension Commission of Ontario within nine months of the fiscal year end of the plan.

Recommendation 67. The Government of Ontario should take immediate steps to place all public sector pension plans other than those having assets of $150 million or more on the same fiscal year end, and to co-ordinate the filing of actuarial valuations so that those plans reporting triennially will all report for the same period.

Solvency Requirements

Recommendation 68. The existing maximum amortization periods now available under the Pension Benefits Act, of 15 years for initial unfunded liabilities and 5 years for experience deficiencies, should remain unchanged.

Recommendation 69. All additional liabilities created in any pension plan by the legislative amendments arising out of the recommendations (e.g., earlier vesting), subject to the approval of the Pension Commission of Ontario as to the amount of such additional liabilities, should be amortized over not more than 15 years and treated in the same manner as initial unfunded liabilities under the act.

Recommendation 70. The "test valuation" permitted under Regulation 4a. of the Pension Benefits Act, allowing the treatment of certain experience deficiencies as initial unfunded liabilities for the purpose of determining the amortization period for the liability, should be phased out by prohibiting its use for actuarial valuations for periods ending after the 30th day of June 1982. Any experience deficiencies deemed to be initial unfunded actuarial liabilities under the test valuation in the past or the future up to June 30, 1982 valuations should be liquidated in accordance with the current rule, i.e., by an immediate lump-sum payment or by equal

annual payments over not more than 15 years from the valuation date as of which they were discovered, and all other experience deficiencies should be liquidated by an immediate lump-sum payment or by equal annual payments over not more than 5 years from the valuation date as of which they were discovered.

Recommendation 71. For plans using a flat benefit design, and such other plans as the Pension Commission of Ontario may designate from time to time, there should be such conditions for plan improvements resulting in initial unfunded liabilities, as may be determined by regulation made under the Pension Benefits Act, in order to ensure adequate funding under the plan for benefits promised from time to time and with a view to equalizing the rate of funding for all types of defined benefit plans.

Recommendation 72. The provisions of the Pension Benefits Act should apply to all employment pension plans in Ontario, whether in the public sector or the private sector. (For particulars of the effect of this principle in Ontario public sector employment pension plans, see Recommendations 108 to 111).

Funding of Post-retirement Adjustments

The desire for post-retirement increases in pension payments to counteract the effects of inflation has created an exception to the general principle that the pension promise should be funded. Although sympathetic to the encouragement of such protection through collective bargaining (formal or informal) the Commission does not favour any methods of adjustment which are not properly funded.

Recommendation 73. The Pension Benefits Act or its regulations should be amended to require that all post-retirement adjustments, whether or not linked in some fashion to changes in the Consumer Price Index and which are provided for in the pension plan document or out of any supplementary or other fund created for that purpose, be funded on the same basis as provided in the act for basic benefits under the pension plan. This requirement should be phased in, effective for existing plans requiring actuarial evaluation from and after June 30, 1982, and should apply immediately to new plans. Any unfunded actuarial liabilities created by this change should be treated as initial unfunded liabilities and be amortized over not more than 15 years, with annual payments to be not less than the annual payout in respect of such adjustments.

The same principle applies to inflation adjustment of public sector plans (see Recommendations 116-120).

PLAN WIND-UP

A basic feature of existing employment pension plans is that they are established voluntarily and may be wound up voluntarily at any time by the plan sponsor. At wind-up the employer is responsible for paying into the pension fund only outstanding current service costs and special payments which may be due at the date of the wind-up regardless of the fact that some benefits that were promised may not then have been paid for. The Pension Benefits Act protects only accrued benefits to the extent they are funded at the date of wind-up.

The Commission found that, since the Pension Benefits Act came into force in 1965, plan wind-ups generally had been accomplished without loss of basic benefits. The Pension Commission of Ontario reported that among trusteed plans there had been only one plan termination in a recent eight-year period in which basic accrued benefits had not been fully covered by the available assets. (Comparable data for insured plans were not available). A distinction must be drawn, however, between "basic" benefits and those which, while subject to funding requirements, may not be given the same degree of priority if the assets are insufficient to provide all accrued benefits. In this lower-priority category are such features as bridging supplements, early retirement privileges, and post-retirement pension increases.

The Commission found that benefits are promised by the employer and accepted by employees on the basis of the continuation in business of the employer. Funding is permitted under the act on this ongoing basis. However when the plan does not in fact continue, either because the employer voluntarily winds up the plan or becomes insolvent, the funding in most cases will not cover the cost of accrued benefits that were being amortized over future years.

In the Commission's opinion part of the problem arises from a lack of understanding of plan members of the limitation of funding for promised benefits. The situation is most commonly found in flat benefit plans, especially in unionized industry, which are updated when the collective bargaining agreement expires, often at three-year intervals. It is also found in career average plans whose past service formula is updated from time to time; or where any plan is upgraded in a significant way, by improving the benefit formula, permitting early retirement with unreduced pensions, adding bridging supplements, or providing inflation adjustments for pensioners. Improved benefits may be funded by special payments over as long as fifteen years. If the plan is wound up before all special payments have been made, benefits may have to be cut back to those actually paid for at the date of the wind-up. From evidence received by the Commission it appears that plan members have not been made aware of the possibility of cut-backs nor the distinction between basic benefits protected under the act and other benefits. (See the case of "Clifford" in Your Income in Retirement - Volume IV of the report).

To alleviate this situation and to encourage change by negotiation between plan sponsors and members, the Commission makes the following recommendations:

> Recommendation 74. The Pension Benefits Act should be amended to provide that meaningful disclosure be made to all members of a pension plan individually, advising that in the event of a plan termination, whether voluntary or not, those benefits which have been promised but which are funded by payments into the future will only be paid to the extent they have been paid for at the date of plan termination. Such disclosure should be made at each plan change which affects benefits.

Plant closures which occurred as the Commission was completing its report, have involved loss of early retirement privileges and have again brought pressure for some form of plan termination insurance similar to that under ERISA in the United States which provides for plan termination insurance secured by a compensation fund and a lien against the employer's assets. The Commission considered these possibilities but has rejected them for a number of important reasons:

(i) plan termination insurance in the ERISA form covers only basic benefits within well-defined limits; it would not protect other benefits. The limitation is a matter of cost;

(ii) plan termination insurance financed by a general levy per plan member penalizes the well-funded plan to the advantage of the poorly-funded plan;

(iii) a guarantee by government is applicable to only one segment of the population, those fortunate enough to have an employment pension plan. Government funds should be used for the whole population seeking security of retirement income.

The Commission therefore makes the following recommendation:

> Recommendation 75. No steps should be taken at this time to institute plan termination insurance or other third party guaranty of benefits promised under an employment pension plan.

The Commission does endorse a new principle for employment pension plans which will afford some preservation of early retirement privileges in the event of plan wind-up. Retirees or those eligible for early retirement will have a fully funded status for all basic benefits to which the plan member is entitled at the time of retirement (normal or early). Thus the plan member who has fulfilled all the conditions for the promised basic pension will be protected against any cut-back of that pension. (See Volume II, Chapter 9).

Where a pension plan is wound-up, whether or not voluntarily, pension plan assets are allocated among the various claims. At present, no clear ranking or priorities for claims are set out in the Pension Benefits Act or its regulations. The Commission advocates a clear statement of these priorities, and endorses the principle that the basic benefits promised at time of retirement to those who have fulfilled the conditions for retirement under the plan should be provided for without reduction whether or not funded and before any other allocation is made. Beyond the incorporation of this principle in the Pension Benefits Act, priorities may be determined under the terms of the plan; but the regulations should set out priorities to be applied where a plan is silent on that subject.

The Commission therefore makes the following recommendations:

> Recommendation 76. The Pension Benefits Act should be amended to require that, upon wind-up of an employment pension plan, those persons who have met the conditions for normal retirement or who have taken or are eligible for early retirement under the plan at least six months before the date of wind-up, or who are in receipt of a permanent disability pension under the plan, shall receive first priority for all basic pension benefits payable to them at the date of such retirement, whether or not these have been fully funded, to the extent of the assets of the plan. If the assets of the plan are not sufficient, these persons shall share rateably in the available assets. All other benefits, including any post-retirement benefit improvements, shall be payable only to the extent funded and shall be subject to the terms of the pension plan and the requirements of the Pension Benefits Act as they apply to all plan members.
>
> Recommendation 77. Except for the special protection to be provided under Recommendation 76, priorities among members on pension plan wind-up should be determined by the provisions of the pension plan, and where the pension plan does not so provide, then by the requirements of the Pension Benefits Act, which should be amended to state clearly the following classes of priority, each member of the class to receive the entitlements stipulated before any allocation to the next following class, the members of classes to share rateably:
>
> a) statutory deferred life annuitants, active and terminated: pension benefits to the extent funded;
>
> b) members vested under the plan provisions: pension benefits to the extent funded; non-vested members: benefits to the extent of required contributions;
>
> c) members to the extent of their additional voluntary contributions;

d) members having other pension benefits, to the extent funded.

e) members having any other benefits: e.g., bridging supplements if not pre-funded; escalated adjustments if not pre-funded.

In the event of bankruptcy or insolvency of an employer, pension fund assets do not form part of the bankrupt estate. However it may be that at the time of bankruptcy or insolvency employee contributions have been deducted but not remitted to the pension plan trustee; there may also be liability for unpaid employer contributions to the date of bankruptcy or insolvency. At the present time there is no mechanism to protect these claims. The Commission therefore makes the following recommendations for such a mechanism and other steps which will assist in minimizing the problem.

<u>Recommendation 78. The Pension Benefits Act should be amended to create</u> a statutory lien for monies deemed to be held in trust by employers under Section 23a) of the Act.

<u>Recommendation 79. The Pension Benefits Act should be amended to create</u> a right in the Pension Commission of Ontario to intervene on behalf of plan members where the employer sponsor of the plan has become insolvent, and to enforce the statutory lien to obtain payment into the plan of monies deemed to be held in trust for the benefit of the plan members.

<u>Recommendation 80. To the extent that such steps in amending</u> the Pension Benefits Act by the Government of Ontario are determined to be bankruptcy legislation and therefore beyond the legislative powers of the provinces, the Government of Ontario should take steps to persuade the federal government to create a protected classification under federal bankruptcy legislation to protect,

a) employee contributions which have been deducted and not remitted;

b) employer contributions payable to the date of bankruptcy or insolvency.

<u>Recommendation 81. The Pension Benefits Act or regulations should</u> be amended to require:

a) in the case of money-purchase plans, that employer contributions be due and payable at the same time now provided for employee contributions;

b) in the case of defined benefit plans, that employer contributions be due and payable in four equal instalments to be made within 30 days of the end of each quarter of the plan year.

INVESTMENT

The Commission examined the existing regulation of investment of pension plan assets under the Pension Benefits Act and found it broad enough to allow a range of investment choices and restrictive enough to protect against large losses. It does not therefore make any recommendation for change in the regulation. It is concerned, however, that there may be no effective means of enforcing the rights of members where the assets of a plan are not held in Canada. It therefore makes the following recommendation:

> <u>Recommendation 82</u>. The Pension Commission of Ontario should assess the extent of the potential problems arising from the absence of regulation of the situs of pension plan assets, and, if found necessary, make recommendations for amendment to the act or regulation.

DISCLOSURE

Disclosure, in the Commission's opinion, is one of the keys to improved pension planning and operation. Employees as beneficiaries of a pension plan are entitled to have access to information which touches on the financial viability and security of the plan. The Commission makes the following recommendations relating to information to plan members, and audit requirements for the verification of financial information and security.

> <u>Recommendation 83</u>. The Pension Benefits Act and its regulations should be amended to provide disclosure of information, based on the principle that no information about an employment pension plan or its operation which is necessary for individual assessment is to be unreasonably withheld from any member of the plan, active, retired or terminated, or his or her beneficiary, or from any employee who is eligible to join the plan.
>
> 1. The following information should be routinely disclosed:
>
>   a) Annually to each member of the plan: individual member contribution (if any) and benefit data; copy of the employer's pension fund statements for the current year; name and address of the plan administrator and each financial carrier; and specific directions for obtaining additional information.
>
>   b) To each member on termination of employment or membership: a detailed statement of his or her benefit entitlement, including the method of calculation; in the case of a defined benefit plan (if the Commission's recommendations concerning rights on termination are adopted), a statement of employee and employer cost and excess contributions

(if any); a concise explanation of all benefit options available to the individual and/or any surviving beneficiary; a summary of fund investments and current rates of return; specific directions for applying for benefits and options; and the name and address of each payor of the person's benefits.

c) In defined benefit plans, a statement warning that, in the event of a wind-up of the plan, specific plan improvements which have not yet been paid for may be cut back to the extent they have not been funded.

d) In multi-employer plans, a statement that promised benefits can only be paid to the extent the contributions fund the benefits.

2. The following information should be available on written request:

a) To any plan member or authorized representative: a copy of the most recent plan information return (Form 2) filed with the Pension Commission of Ontario; a list of all fund investments showing both book value and market value at the end of the last plan year, together with a statement of the time-weighted rate of return on the fund; a copy of the most recent actuarial valuation report and cost certificate filed with the commission; and a copy of the latest available audit report.

b) To any plan member or authorized representative: copies of, or a reasonable opportunity to inspect and make extracts from, documents not otherwise provided to members, such as a trust agreement, a contract of insurance or investment management, by-law, collective agreement or other documents under which a plan is constituted.

3. The following right of inspection should be available: to any plan member, or his or her agent authorized in writing, the right to inspect at the offices of the Pension Commission of Ontario the plan document or documents and any other document or report concerning the operation of the pension plan filed with the pension commission and to which the disclosure requirements apply.

AUDIT

The Commission makes the following recommendations:

Recommendation 84. The Pension Benefits Act and its regulations should be amended to require audit of both the pension plan and the pension fund with an

audit report certified by a chartered accountant, to be filed with the Pension Commission of Ontario as follows:

for multi-employer plans, an audit report on the pension plan shall be filed annually;

for all other employment pension plans, an audit report on the pension plan shall be filed at least every three years and coincide with the period of the triennial actuarial evaluation;

for all employment pension plans, except where assets are held by an insurance company or trust company and a certificate as to the existence of assets is given by the auditors of such company, an audit report on the pension fund shall be filed annually.

Recommendation 85. The Pension Benefits Act and its regulations should be amended to give the Pension Commission of Ontario specific authority to require audits of both plan and fund more frequently and to order an independent audit of the plan and the fund if in the opinion of the Commission such audit is warranted for the protection of plan members.

THE PENSION COMMISSION OF ONTARIO

The Commission found that the Pension Commission of Ontario has performed effectively in administering the Pension Benefits Act since its inception in 1965. The emphasis has been on the protection of statutory vested rights of plan members and the regulation of solvency and investment of pension plans. Developments in the pension field since 1965 have made it necessary, in the opinion of this Commission, to recommend an expanded role for the pension commission, with more stress on information to employees and the protection of individual rights. Coupled with this are the new duties for the pension commission flowing from the Commission's other recommendations for improved transfer rights, stronger regulation of funding, and adoption of a mandatory plan. We also see the need to assign to the Pension Commission of Ontario the explicit task of proposing legislative amendments to implement the recommendations of this Commission; and the related need for periodic reviews of the act and regulations, with appropriate reports to the Minister and the Legislature. The Commission therefore makes the following recommendations:

Recommendation 86. The Pension Benefits Act should be amended to expand the role of the Pension Commission of Ontario from a regulatory body alone to a body designed to inform and assist individuals in enforcing their rights to pension benefits in employment pension plans, and for that purpose the commission should be given power:

a) to intervene with the employer on behalf of a plan member or class of plan members, including active, retired, or terminated members and their beneficiaries, and to take legal proceedings on behalf of such individual or class in the event of the bankruptcy or insolvency of the plan sponsor which adversely affects the pension plan for events prior to the date of such bankruptcy or insolvency;

b) to arbitrate disputes between an employer and an individual employee or class of employees as to entitlements under a pension plan.

Review of Legislation

Recommendation 87. The Pension Commission of Ontario should be requested to undertake a review of the Pension Benefits Act and report to the Minister with proposals for amendment of both the Act and the regulations, including those changes recommended by this Commission.

Recommendation 88. The Pension Benefits Act should be amended to require the Pension Commission of Ontario to make a periodic review of the act and regulations and submit its report on recommended amendments to the Minister at least every five years, with the further requirement that its report be tabled in the Legislature.

Administration: Financing and Staffing

Recommendation 89. The necessary monies should be allocated to permit the Pension Commission of Ontario to carry out effectively its additional obligations contemplated by the recommendations for an expanded role for the commission.

See also Recommendations 44, 49, 57, 59, 60, 61, 64, 69, 71, 79, 82, 85, 92, 93, 95, 96, 103, 107, 115, 139 and 146 which affect the role of the Pension Commission of Ontario.

FURTHER PENSION BENEFITS ACT AMENDMENTS

Multi-Employer Plans

Recommendation 90. The Pension Benefits Act should be amended to bring within the ambit of the act by separate definition: multi-employer plans, union-sponsored pension plans and any type of employee-pay-all plan which provides a pension benefit.

Recommendation 91. The Pension Benefits Act should be amended to place upon the board of trustees of a multi-employer plan the responsibilities normally placed on the employer in a single employer plan,

where these responsibilities are not properly attributable to participating employers.

Recommendation 92. The Pension Commission of Ontario should take steps to ensure that service requirements for entitlements under multi-employer plans are not linked to plan membership in such a way as to deprive an individual of service-based benefits.

Representation of Plan Members

Recommendation 93. The Pension Benefits Act should be amended to require, for contributory pension plans, representation of the active members of the plan on the body directing the affairs of the pension plan, by the election of not less than one plan member to such body with full rights as a member of the board or committee. Election of such member shall be required under a provision of the plan in a manner acceptable to the Pension Commission of Ontario.

Obligations of Trustees

Recommendation 94. The Pension Benefits Act should be amended to state clearly the distinction between the person responsible for the operation of the plan and the person responsible for the operation of the fund, and in the latter case, the extent of the obligation of that person for investment management of the fund.

Garnishment of Pension Benefits

Recommendation 95. The principle that pension benefits are not assignable or subject to seizure should continue without further exceptions.

Effective Date of Proposed Legislation

Recommendation 96. Legislation implementing recommended changes should be effective at a time not later than three years after the legislation has received Royal assent.

All additional liabilities created by the recommended legislative amendments should be treated as initial unfunded liabilities (as noted in Recommendation 69) and therefore subject to amortization over a period of up to 15 years.

RELATIONSHIP WITH MANDATORY PLAN

If the Government of Ontario legislates a mandatory money-purchase plan (PURS) for all workers in Ontario, existing employment pension

plans will assume a different role in the provision of retirement income. It is expected that they would be continued, perhaps with changes in their benefit design, with the emphasis on providing benefits above 50-60 per cent of the Average Industrial Wage, and supplementary benefits (where cost considerations permit) such as early retirement and cost-of-living adjustments. If employment pensions thereby assume a supplementary role, the Commission is of the opinion that less stringent minimums should be required for these plans than if PURS is not adopted. For this reason the Commission has made the following alternate recommendations in four specific areas depending on whether or not PURS is adopted. All other recommendations for employment pension plans are to apply in either event, Recommendation 97 concerning part-time employees is affected by the adoption of a mandatory plan only with regard to compulsion in joining an employment pension plan.

Eligibility

> Recommendation 97. The Pension Benefits Act should be amended to require the extension of eligibility for an employment pension plan registered under the act to all part-time employees where there is a durable employment relationship between employer and employee, on the same terms and conditions, pro tanto, as are applicable to full-time employees. If PURS is adopted, joining the employer's plan should be made voluntary for part-time employees.

> Recommendation 98. If PURS is adopted, no employee should be compelled to join a contributory plan as a term or condition of employment.

> Recommendation 99. If PURS is adopted, the employer sponsoring an employment pension plan should be permitted to adopt reasonable eligibility rules suitable to the particular requirements of the employer's work-force.

> Recommendation 100. If PURS is not adopted, the Pension Benefits Act should be amended to provide for a maximum service requirement of two years for those aged 35 and under, and of one year for those over 35.

Vesting

If PURS is adopted, the minimum vesting rule for employment pension plans should be 10 years' continuous service or membership. If PURS is not adopted, the minimum vesting rule for employment pension plans should be 5 years' continuous service or membership (see Recommendations 41 and 42).

Locking-in

> Recommendation 101. If PURS is adopted and has matured, there should be no locking-in of any part

of an employee's contributions to employment pension plans.

Form of Retirement Benefit

Recommendation 102. If PURS is adopted, steps should be taken by the Government of Ontario (in conjunction with federal taxation authorities as required) to provide greater flexibility in the form of benefit available under registered pension plans beyond the present life annuity.

Recommendation 103. If PURS is not adopted, the pension benefit available under a registered pension plan should continue to be in the form of a life annuity, such annuity to be non-commutable except for minimum amounts as determined by the Pension Commission of Ontario from time to time.

Calculation of Annuities

Life Annuities

Recommendation 104. Because the life annuity in its basic form is not adaptable to the effects of inflation, the Pension Benefits Act should be amended to make available to every plan member on retirement the option of a participating annuity; and in addition, where the annuity is to be obtained from an insurance company, the option of an escalating annuity.

For PURS the same options are recommended; see Recommendation 40(f).

Unisex Tables

Recommendation 105. The proposed mandatory plan should incorporate such provisions as will ensure that annuities under the plan are calculated without regard to the sex of the annuitant on the basis of unisex mortality tables (Unanimous recommendation).

Recommendation 106. The Government of Ontario should take steps to ensure that all annuities purchased for money-purchase pension plans and RRSPs as well as for PURS, if adopted, are calculated without regard to the sex of the annuitant on the basis of unisex mortality tables. (Two Commissioners dissented from this recommendation - see Anti-Discrimination Legislation, in Volume III, Chapter 16).

Opting-out of PURS

Recommendation 107. Opting-out of PURS by employers should be permitted if money-purchase benefits equal to those provided under PURS are included in an employment pension plan, subject to conditions de-

termined from time to time by the Pension Commission of Ontario.

THE DEFINED BENEFIT PLAN

The defined benefit plan is the most common form of employment pension plan; it covers 92.3 per cent of all plan members in Ontario. Criticism of pension arrangements has focused on problems inherent in the defined benefit design. These problems include:

a) Inappropriateness for today's mobile workers, since defined benefit plans are designed primarily to benefit the long-service employee.

b) Defined benefits on a career average formula are visibly outdated by inflation.

c) Younger and short-service employees subsidize the cost of the plan to the benefit of older and longer-service employees through reduction in employer costs.

d) Group funding of defined benefit plans makes it impossible for the individual to know what part of the cost is being paid for by employee contributions.

e) Individual equity is incompatible with the allocation of funds in a defined benefit plan. The insurance features of defined benefit plans do not meet the evident public desire for a program based on the individual account.

f) Funding techniques are difficult for the plan members to understand.

g) On wind-up, all expected benefits may not have been paid for and as a result may be reduced or eliminated.

h) Government income tax incentives should be directed to supporting designs which suit the circumstances or needs of most of the working population.

The Commission does not recommend the outright abolition of the defined benefit plan, but it finds good reason to encourage a move to the defined contribution design. With enactment of a mandatory savings plan, the defined benefit plan may be used to accommodate the special needs of particular groups of workers, e.g., early retirement.

Whether or not the mandatory savings plan is enacted, some of the existing inequities of the defined benefit design should be eliminated or reduced. These are dealt with in the following:

(i) *individual rights on termination of employment (Recommendations 43 to 51);*

(ii) *earlier vesting (Recommendations 41 and 42);*

(iii) *improved funding (Recommendations 58 to 73);*

(iv) *greater disclosure (Recommendations 83 to 85);*

(v) *greater protection on wind-up (Recommendations 74 to 81).*

Part IV

Ontario Public Sector Employment Pension Plans

(Volumes VI and VII)

The Commission's study of Ontario public sector employment pension plans showed:

(i) There are 127 pension plans covering 455,000 public employees in which the Government of Ontario is concerned, either directly as employer, or indirectly through its Crown corporations, boards, commissions or agents, or through government guarantee. Five of these plans covered 84 per cent of the membership: Public Service Superannuation Fund (PSSF), Teachers' Superannuation Fund (TSF), Ontario Municipal Employees Retirement System (OMERS), Hospitals of Ontario Pension Plan (HOOPP), and the Ontario Hydro plan. Total assets of the five major plans are estimated to be at this time in the order of $9 billion.

(ii) The plans are diverse in detailed features, but in general are contributory and defined benefit in design, based on a final average earnings formula.

(iii) Most plans have some history of adjustment to inflation, either on a regular basis, through a separate adjustment fund or by ad hoc adjustment.

(iv) Overall, public sector employees enjoy better pension benefits than employees in the private sector.

(v) Among the important differences in operation of pension funds between the public and private sectors are:

- *in some public sector plans, no separate fund exists and monies are credited to separate accounts within the province's Consolidated Revenue Fund;*

- *for many plans investment of the fund assets is carried out in the same way as for private sector plans; notable exceptions are the Public Service Superannuation Fund (PSSF), the Teachers' Superannuation Fund (TSF), the Legislative Assembly Retirement Allowances plan (LARA) and the superannuation adjustment funds.*

(vi) *There is no one central agency, board or ministry of government with the power to control or co-ordinate pension benefits for public employees, and therefore no effective method of exercising cost control.*

(vii) *The number of public sector employees and pension costs will increase in the future with the extent of the growth determined by natural population growth and expansion of government services in response to public demand.*

GENERAL PRINCIPLES

The Commission's assessment of public sector plans and its recommendations were made on the basis of the following principles:

(i) *The public sector plans should be regulated on the same basis as the private sector plans.*

(ii) *Public sector plans should not lead the private sector plans in benefit provision but should be designed to achieve an overall parity with private sector plans.*

(iii) *Effective cost control of public sector pensions must be implemented and maintained. The public as taxpayer must be assured that the cost of pensions for public sector employees is fair and does not place an undue burden on the resources of the province.*

The Commission's recommendations for employment pension plans apply equally to public and private sector pension plans (see Volumes II and III and Recommendations 40 to 107 for employment pension plans in Part III of this summary).

The Commission, therefore, has made the following recommendations in applying these principles to Ontario public sector pension plans:

> Recommendation 108. The Government of Ontario should continue to support the principle that all public sector employment pension plans, being those

directly or indirectly funded by government obligations or guarantees, come within the provisions of the Pension Benefits Act. Except as recommended for the Legislative Assembly Retirement Allowances Account (Recommendation (111), no new exceptions should be made to permit continuance of an initial unfunded liability without provision for special payments to reduce such liability.

Recommendation 109. The Pension Benefits Act should be amended to specifically bind the Crown in the right of Ontario, its Crown agencies, its agents, its boards and commissions, and its municipalities to comply with the provisions of the Pension Benefits Act.

Recommendation 110. Any act or regulation governing a public sector pension plan whose provisions are not in accordance with the Pension Benefits Act should be amended immediately to comply with all requirements of the Pension Benefits Act and to be subject to the requirements of the Pension Benefits Act.

Recommendation 111. The Pension Benefits Act should be amended to apply immediately to the Legislative Assembly Retirement Allowances Account in the same fashion as it now applies to public sector employees' plans. Any unfunded actuarial liability in the account at the effective date of such amendment should be treated as an initial unfunded liability on which interest only is payable under Section 1(13) of the regulations under the Pension Benefits Act, subject to the making of payments which may be necessary from year to year to fulfil cash flow requirements.

Recommendation 112. The Government of Ontario should immediately adopt a policy of determining the full and true cost of all pension benefits provided to employees in the Ontario public sector and to utilize such information for the following purposes:

a) to recognize and control the cost of all such benefits for the full term of their accrual;

b) to allocate cost fairly between employer and employees;

c) to provide information on such costs to both employers and employees, whether or not such pensions are subject to collective bargaining;

d) to provide information on such costs to taxpayers.

FUNDING (See also Recommendations 58 to 73)

The Commission examined the funding status and the cost of fulfilling the funding requirements of public sector pension plans. Its studies showed:

(i) Six of the plans control assets in the order of $9 billion which is the major portion of assets of all public sector plans. Funding of public sector plans is required not so much for security for employees as for cost control. Overall, the plans are reasonably well-funded.

(ii) The funded status of the six plans at the time of their most recent respective valuations was:

PSSF	*(31 Dec. 1976)*	*67.9 per cent*
TSF	*(31 Dec. 1978)*	*80.6 per cent*
OMERS	*(1 Jan. 1978)*	*91.3 per cent*
HOOPP	*(31 Dec. 1978)*	*91.1 per cent*
Hydro	*(31 Dec. 1979)*	*106.7 per cent*
WCB	*(31 Dec. 1977)*	*121.5 per cent*

(For basis of determination, see Volume VI, Chapter 5, Table 5).

(iii) Public sector employees contribute to pensions 6 per cent of earnings (less CPP contributions); and in most plans the employer contributes the balance of the cost. In some plans (e.g., PSSF, TSF) the legislation requires the province to "match" the contribution of the employees; but the matching contributions do not produce sufficient monies to fund the promised pension benefits in accordance with the Pension Benefits Act.

(iv) In plans governed by the Superannuation Adjustment Benefits Act (PSSF, TSF, Ryerson Pension Fund, Caucus Employees Retirement Fund), employees and employers now contribute a matching 1 per cent of salary to pay for the indexing of pensions. This matching contribution may not produce sufficient monies to ensure payment of the promised indexing in the future.

(v) Segregation of monies from those of the employer to pay for pensions is a cardinal principle of the Pension Benefits Act to protect employees and to identify investment proceeds. Public sector funds which do not utilize a separate fund are PSSF, LARA and the superannuation adjustment funds.

(vi) *The estimates of liabilities of the plans are affected by the actuarial methods and assumptions used in the valuations.*

The Commission therefore makes the following recommendations:

> Recommendation 113. The principle of "matching contributions" in all public sector plans providing defined benefits should be abandoned, and both legislation and established policies setting contributions on a matching basis in such plans should be amended so that contribution rates reflect the true cost responsibilities under the plan.

> Recommendation 114. The Public Service Superannuation Fund (PSSF) should be established as a separate fund apart from the Consolidated Revenue Fund and the Treasurer's Account, with an initial unfunded liability as of January 1, 1965 on which only interest is payable pursuant to Section 1(13) of the Pension Benefits Act regulations, with all other initial unfunded liabilities or experience deficiencies to be amortized by special payments in the usual way under the Pension Benefits Act. A similar fund should be established for the Legislative Assembly plan when it is brought under the Pension Benefits Act as recommended.

Actuarial Valuations

As required by Recommendation 66, all pension plans in the public sector having assets of $150 million or more should file an annual actuarial valuation with the Pension Commission of Ontario within nine months of the fiscal year end of the plan. Those plans not required to file annually under Recommendation 66 should be placed on the same fiscal year end and the filing of actuarial valuations co-ordinated so that these plans will all report for the same period. (See Recommendation 67).

> Recommendation 115. For actuarial valuations of all public sector plans, a basis for actuarial assumptions should be prescribed as follows, with the assumptions derived from such basis to be subject to the approval of the Pension Commission of Ontario:
>
> a) the investment rate of return, setting out separately:
>
> (i) the inflation rate forecast for pension purposes by the Treasurer of Ontario;
>
> (ii) the real rate of return;
>
> (iii) the risk factor, provided that where the fund is invested in Canada or Ontario debt instruments no risk factor be taken into account; where the fund is invested in other market securities, all factors to apply; where the fund is invested in

both categories of investment, the applicable rate be applied to the appropriate portion of the fund;

b) the salary scale, setting out separately:

   (i) the inflation rate, being the same as that used for the investment rate of return;

   (ii) merit increases;

   (iii) productivity;

c) the YMPE set for the year by Canada Pension Plan legislation;

and decremental assumptions for mortality, disability, and terminations should be assessed against actual experience every three years for each of the PSSF, TSF, HOOPP, Hydro, and such others which become large enough to produce significant results. Such assumptions should be set by the plan actuary taking into account such actual experience, and for this purpose a regular demographic forecast should be undertaken by the Government of Ontario for each plan, and data maintained for assessing the experience of the plan against the forecast.

Funding of Indexing

The Commission does not object to the post-retirement indexing of pension benefits subject to an assessment of the degree of indexing which should be provided. Whether or not indexing is desirable and affordable is a matter of negotiation between employer and employee. As with private sector plans, however, the Commission is concerned that, once made, the indexing promise is secure. The Superannuation Adjustment Benefits Act (SABA), which covers plans designated under it (PSSF, TSF, Ryerson Pension Fund and the Caucus Employees' Retirement Fund) does not provide a mechanism which in the Commission's opinion is satisfactory. The act provides for indexing to the Consumer Price Index for the year ending September 30 to a maximum of 8 per cent. Where the CPI increase in the year is greater than 8 per cent, the difference is carried over to a later year in which the increase is less than 8 per cent. Employers and employees each pay 1 per cent of salary. Interest is credited annually at a rate determined by the Lieutenant-Governor in Council. The 2 per cent total contribution rate would have to increase eventually to about 7 per cent of earnings to pay for the promised indexing for the PSSF and the TSF.

The Commission therefore makes the following recommendations for discontinuance of the SABA approach, with alternate recommendations for its operation if the government does not see fit to repeal the legislation:

Recommendation 116. The Government of Ontario should take immediate steps to phase out the Public

Service Superannuation Adjustment Fund (PSSAF), the Ryerson Adjustment Fund, the Caucus Employees Adjustment Fund, and the Teachers' Superannuation Adjustment Fund (TSAF) and in due course repeal the Superannuation Adjustment Benefits Act. In the interim, payments for adjustment should continue out of the four adjustment funds with all payments out of these funds to cease at December 31, 1981, and in the future to be made from the principal funds. All funds from the contributions by employees and the government as employer should be transferred to the Public Service Superannuation Fund, the Ryerson Pension Fund, the Caucus Employees Retirement Fund, and the Teachers' Superannuation Fund respectively as of that date. Any unfunded liabilities created by this change should be treated as initial unfunded liabilities and be amortized over 15 years in the respective funds.

Recommendation 117. Post-retirement adjustments for persons who retired before January 1, 1976 and are receiving post-retirement adjustments out of the Consolidated Revenue Fund of Ontario, should continue on the present basis.

Recommendation 118. In the case of ad hoc adjustments made in public sector plans on a regular basis but outside the pension plan itself, the Government of Ontario should take steps to bring such payments within the framework of the pension plan for cost identification purposes.

Recommendation 119. The Government of Ontario should take no steps to adopt terminal funding for post-retirement adjustments or to extend the use of supplementary adjustment funds for the purpose of providing post-retirement adjustments outside the funding provisions of the Pension Benefits Act.

Recommendation 120. If the Government of Ontario is not prepared to abolish the SABA approach, as recommended, and continues the indexing of pension benefits out of a separate fund contributed to by government and employees on an equal basis:

a) the indexing promise should be changed from the present 8 per cent cap with carry-over, so that the government responsibility is limited to its 1 per cent contribution to the SABA fund;

b) the SABA fund should be operated on a pay-as-you-go basis with each employee being clearly warned that adjustments can be made only to the extent of the fund, and that they may not receive an adjustment when they retire;

c) consideration should be given to making participation in this fund voluntary for the employee;

d) this approach should not be permitted for private sector plans.

Funding and investment go hand in hand in pension planning. Investment performance affects the cost for the taxpayers, and security and potential benefit improvements for plan members. All public sector plans have funds to be invested. Most plans invest in financial market instruments in the same manner as private sector pension plans. Some (e.g., TSF) hold only non-marketable debt instruments of the province. Some such as OMERS use both. Some have insurance company deposit administration plans. The PSSF assets of over $1 billion, however, are represented by an account in the Consolidated Revenue Fund with interest credited annually at a rate determined by the provincial treasurer.

The Commission believes that fundamental changes are required in the investment policies for some public sector pension plans. Adoption of its recommendations should have several advantages:

(i) improved and visible rates of return on pension fund assets;

(ii) greater amounts of capital available for private market utilization;

(iii) controls on public borrowing if the government is forced to borrow at market rates of return;

(iv) visibility of pension cost to government, taxpayers, and plan members;

The Commission therefore makes the following recommendation:

<u>Recommendation 121</u>. The Government of Ontario should adopt a policy of investment for all public sector pension funds, including the funds to be created for the PSSF and the Legislative Assembly Retirement Allowances plan, incorporating the following principles:

a) all investments should be in the form of marketable securities;

b) all funds and investments should be segregated from government funds, even on a short-term basis;

c) book entries such as those currently used for the PSSF, and non-marketable securities such as those now used for the TSF should be discontinued and replaced as soon as practicable with marketable securities;

d) all future investments should reflect market rates of return;

e) some portion of the investment of a plan should be made in the private sector within the investment regulations of the Pension Benefits Act.

COST

Cost of public sector pensions is a major concern to this Commission. The very size of public sector coverage means that even a small error in calculating cost can have a significant effect on total cost. Cost has less significance in the private sector where the cost of pensions is ultimately a market decision. This discipline does not exist in the public sector. Cost is of interest not only to the government as employer and to employees, but to taxpayers who have a valid interest in determining whether such costs are reasonable. Difficulties in determining the costs of public sector pensions are compounded by several factors:

(i) *Although the accounting techniques used to determine pension costs in the public accounts of the province appear appropriate, it is not easy to appreciate the full impact of the cost figures because they are often spread throughout the public accounts.*

(ii) *More importantly, lack of data for comparable periods and prepared on comparable bases makes it extremely difficult to get a clear picture of the total cost of public sector pensions.*

(iii) *We have seen that the choice of actuarial funding method affects the ultimate cost of a pension, and we accept this variability in the public sector as well as in the private sector (see Volume II, Chapter 9).*

(iv) *The matching contribution principle also obscures cost. For example, the employer cost of teachers' pensions including indexing for 1978-79 was 14.74 per cent of payroll for a total cost of 21.74 per cent. The difference of 7.74 percentage points means that the annual cost is 55 per cent more than the total (14 per cent) of the matching contributions.*

(v) *Items of cost include not only current service cost but supplemental liability payments, administrative expenses, and superannuation adjustment costs. The causes of supplemental liabilities are not readily isolated.*

(vi) *Further distortions arise from prepayments and variations in the timing of payments. These may be advantageous in private sector plans but may distort the true cost picture in the public sector.*

(vii) *The continuance of surplus funding (e.g., WCB pension plan) also distorts the overall pension cost picture.*

(viii) *Some benefits are not easily costed. Various retirement conditions such as the rule of 90, or age 60 with 20 years' service, create a significant retirement subsidy since CPP integration does not occur until age 65 (the normal retirement age in private sector plans). The cost of this "bridging" benefit is not readily seen.*

(ix) *Even if the cost picture were clear, there is no authority at present with the power to assess the costs and make any change to control or alter them.*

Financial data show that the funded position of some of the six plans studied has deteriorated, and there is a marked trend towards increased cost as a percentage of payroll.

The Commission therefore makes the following recommendations to bring about effective cost control of public sector pensions through determination, disclosure and assessment of total cost of pensions:

Effective Cost Control

Management Board Responsibility

Recommendation 122. Responsibility for cost control of all public sector pension plans should be placed with Management Board of Cabinet, with power to scrutinize the operation of each plan and to control the cost and obligations of each plan through budgetary control of the plan sponsor.

Recommendation 123. To assist Management Board in its responsibility, Treasury should assume four independent responsibilities relating to public sector pension plans:

a) to set the inflation factor for use in determining salary scales and interest rates as required for actuarial valuations of public sector plans;

b) to scrutinize and evaluate from a true and total cost perspective the actual operating experience of each public sector pension plan and to report its findings to Management Board;

c) to evaluate the true and total cost of proposals for change in each plan and determine the contribution rates for both employees and employer to pay the full cost of such changes (all proposals to be submitted through Management Board to Treasury for costing before any such change is made) and to report its findings to Management Board; such findings to be available to the public on request;

d) to report periodically to the public on the operation of public sector pension plans, and in particular the cost of the plans in dollars and as a percentage of payroll and the cost-sharing

between employer and employee; such report to be made annually for the PSSF, TSF, Hydro, HOOPP, OMERS, and WCB, and at least every six years for all other public sector pension plans.

Recommendation 124. Guidelines, similar to those developed by Management Board in 1976 for the five largest sector plans and the WCB, should be developed by Treasury in carrying out its recommended responsibilities of scrutinizing and evaluating the operation of all public sector plans for cost control purposes. The guidelines should incorporate the Commission's recommendations for funding (see Recommendations 113 to 120 for public sector plans as well as Recommendations 58 to 73 for funding in general).

Recommendation 125. Employers in a surplus funding position (e.g., WCB pension plan) should apply immediately for a refund of the surplus pursuant to the Pension Benefits Act to be applied to the current service cost of the pension. No public sector pension plan should normally continue in a surplus position for more than one valuation period.

Recommendation 126. The Treasury, in carrying out as recommended its responsibility of scrutinizing and evaluating the operation of all public sector plans, should review, at least every six years, the funding of all public sector pension plans through an examination of each plan, on a basis consistent for all the plans, to allow comparisons of funding among the plans. The results of such examination should be used by Management Board in assessing the future cost of all the plans, and for the purpose of reporting to the public.

A very important aspect of the cost-determining role of the Treasury will be the full costing of plan improvements before they are instituted. The six-year review will allow a close scrutiny of unfunded actuarial liabilities and surpluses in all plans with a view to identifying their causes and taking measures to control them.

The Commission believes that recognition of the true cost of pensions at the level of Management Board will enable it to control costs effectively in the future. However, if this or some similar alternative is not feasible within the governmental structure, then the Commission recommends:

Recommendation 127. If the necessary authority to control pension plan costs cannot be given to Management Board or cannot be successfully used by Management Board to control pension plan costs, the Government of Ontario should consider making changes in pension plan design to convert existing plans to defined contribution (money-purchase) plans or to some other design in which cost control is effective.

Parity with the Private Sector

The Commission believes that government must take notice of strong public statements concerning differences between public and private employee benefits. Public sector employees are better off in terms of pension benefits than are private sector employees. Coverage is higher in the public sector: 94.8 per cent compared to 39.1 per cent. Almost 96 per cent of plan members in the public sector are in a final earnings plan compared to 31 per cent in the private sector. About 83 per cent have survivor benefits compared to 21 per cent in the private sector and 81 per cent have a full accrued disability benefit in the plan compared to 28 per cent of private sector members. Almost no members in the private sector have automatic adjustment for inflation (95.2 per cent have none) while almost 60 per cent of members in the public sector have some automatic protection. A good measure of portability exists within the public sector through reciprocal transfer agreements which are virtually non-existent in the private sector.

The cost of pensions is inevitably affected by the generosity of the benefits. In the Commission's opinion, the taxpayer must not be obliged to shoulder the cost of pension benefits for public sector employees while they cannot hope to gain comparable benefits for themselves because of cost limitations in the private sector. The Commission therefore makes the following recommendation for parity with the private sector. This, effected in combination with Management Board responsibility, will result in effective cost control of public sector pensions:

> Recommendation 128. The Government of Ontario should seek to achieve parity with the private sector in total compensation of its employees, and in particular should not provide pension benefits more generous than those generally available in the private sector (measured by the full cost of such benefits). The government should not lead the way for the private sector, particularly in the areas of inflation adjustment and early retirement without actuarial reduction.

SPECIAL ISSUES

On a number of special issues affecting public sector plans, the Commission makes the following recommendations:

Collective Bargaining

Some public sector pensions are excluded from the scope of collective bargaining directly or indirectly as a result of legislation. The Crown Employees Collective Bargaining Act, covering the PSSF, expressly excludes pensions from the scope of bargaining, although it states that the governing principles should be subject to review by the employer

and the bargaining agent. The OMERS Act allows negotiation only of specified supplementary benefits, while the Teachers' Superannuation Act makes no reference to collective bargaining. In effect, the provisions of these plans can be altered only by negotiation with the government as opposed to the direct employer.

HOOPP is theoretically bargainable but the various unions in the health sector do not have representation in all member hospitals. Even if they did, they could not realistically negotiate the provisions of the plan unless they were to bargain jointly. The same problem would exist in the PSSF, TSF, and OMERS if it were possible to negotiate the provisions of these plans, since all are multi-employer plans. In a few cases, notably in a number of universities, it would appear that pensions are not negotiated because unionized employees constitute a minority of the plan's members.

Most unions have expressed the view that pensions should be negotiable on the ground that employer contributions to pension plans represent employee income, in the same way as salaries or other benefits, and that it is anomalous that they should be able to bargain over all items of compensation except pensions.

The Commission examined problems of permitting negotiation of pension matters, namely the possibility of fragmentation of plans and the difficulty of controlling costs in non-market public sector negotiations. The Commission examined alternatives to collective bargaining such as employee control of pensions, limited bargaining, and joint consultation (the present situation).

While the Commission favours the principle of collective bargaining, formal or informal, between employers and employees to determine pension benefits, it is not prepared to recommend any move to increased formal collective bargaining in the public sector at this time.

> Recommendation 129. Pensions should be considered as appropriate for collective bargaining in the public sector subject to the acknowlegement that there may be some circumstances in which collective bargaining may not be practicable; no new areas for collective bargaining of pensions should be opened at this time.

Reciprocal Transfer Agreements

The ability to transfer pension service credits from one plan to another through reciprocal transfer agreements is prevalent in the public sector because of the homogeneity of the employers. Under these agreements, double contributions with a nominal rate of interest are transferred from one fund to another. These agreements result in higher costs to public sector employers and may result in increased benefits for the transferring employee.

Recommendation 130. The terms of reciprocal transfer agreements for public sector employees should be reviewed and, where necessary, altered to result in neither undue gain nor undue loss to the person making a transfer from one plan to another, and to ensure that the cost of additional benefits which become available upon transfer, such as improved benefits for past service with other plans, are fairly allocated between the employer and the employee.

Pensions for Provincial Judges

Judges

Ontario has jurisdiction over the pensions of some 190 provincial court judges and 8 small claims court judges. Pensions for these judges are provided under the Public Service Superannuation Act in the same plan as provincial civil servants.

The independence of the judiciary requires enactment of a pension plan for judges separate from that of civil servants. (A separate plan is maintained for members of the Legislative Assembly).

Recommendation 131. A pension plan separate from that for public servants generally should be enacted for all members of the judiciary to whom Ontario's legislative powers extend.

Earlier Unreduced Retirement Benefits

Recommendation 132. The Government of Ontario should not take steps to lower the existing retirement ages at which unreduced pensions are available except where it can be demonstrated that unreduced pensions at earlier ages are a necessity for a special group. In those cases the additional cost of earlier unreduced retirement benefits should be fairly borne by employer and employees.

Earnings or Retirement Tests

Some public sector plans impose an earnings test (e.g., PSSF) on retirees whether or not the retiree has attained age 65, and the amounts of pension are reduced in accordance with earnings. Inequities exist as a result of such earnings tests. Furthermore, there is little support for the imposition of an earnings test after age 65. However, the right to retire on an actuarially unreduced pension prior to age 65 is common in the public sector. Those retiring before age 65 therefore obtain a substantial "bridging supplement" since the employer pays the equivalent amount of CPP benefits until the retiree reaches age 65. An earnings test, therefore, is appropriate prior to the age when retirement income from government programs begins.

Recommendation 133. All earnings and retirement tests should be abolished for retired employees who have attained the age of 65. Any other action should be determined after monitoring the effect of the Revenue Canada rules and examining its own re-employment policy so that public sector policy for re-employment conditions will be consistent with that in the private sector.

Plan Administration

As we have seen, there is no overall government control of the cost of pensions. Similarly, there is no overall co-ordination of pension benefits and plan provisions.

The Commission considered and rejected the alternative of a consolidated pension plan for all employees because of the difficulty of regulating funding and matters between employer and employee for diverse groups. The Commission also rejected the alternative of a central pension board for the public sector. Cost control - the most important function of such a board - can be best performed through Management Board and the Treasury as we are proposing (Recommendations 123 to 127).

However, there is a need for some body to deal specifically with individual employee matters. This should be done under the Pension Commission of Ontario, as recommended for all employment pension plans (see Recommendation 86).

The Commission considered a number of other special issues but has made no recommendations concerning them. Reference should be had to Volume VI, Chapter 6 of the report. The Commission believes that specific changes in benefit provisions are appropriate matters for informal bargaining between employer and employees and should not be determined by this Commission. The Commission is concerned that the full cost of proposed benefit improvements be clearly identified and that such cost be borne by employer and employees through appropriate contribution rates.

Part V

Special Retirement Concerns

THE EFFECT OF INFLATION ON RETIREMENT INCOME (Volume II, Chapter 10)

The Commission studied the effect of inflation on retirement income and found:

(i) The problem of inflation affects all members of Canadian society but chiefly those on fixed incomes. Pensioners in particular suffer a substantial loss of purchasing power in periods of high inflation. In addition, they are not in a position to benefit from productivity growth and so are unable to achieve any improvement in living standards comparable to those still in the work-force, even in the absence of inflation.

(ii) The adequacy of any pension, regardless of the plan formula, is impaired by inflation before as well as after retirement.

(iii) Existing government programs provide substantial protection from inflation.

(iv) It is desirable to encourage individuals to set aside monies to provide income in retirement.

(v) Ontario residents are generally in favour of total indexing for government and employment pensions.

(vi) The Commission considered and rejected the following methods of protecting retirement income from inflation beyond the protection provided through government programs:

a) mandatory indexing of employment pension benefits by employers;

b) indexed bonds;

c) government inflation insurance.

The Commission makes the following recommendations:

Government Programs

Recommendation 134. The annual income in retirement guaranteed by the Federal and Ontario governments should continue to be protected from inflation.

a) The Old Age Security and Guaranteed Income Supplement programs should continue to be indexed quarterly to increases in the Consumer Price Index. The Guaranteed Annual Income System (GAINS) should continue to reflect federal adjustments for inflation.

b) The Canada Pension Plan should continue to be adjusted in accordance with the average industrial wage prior to retirement and annually in retirement in accordance with increases in the Consumer Price Index.

Recommendation 135. The Consumer Price Index should continue to be the measure for indexing of government programs, with no steps taken to develop a different index for those 65 and over.

Inflation Tax Credit

Because the problem of inflation affects all members of Canadian society but chiefly those on fixed incomes, it is not appropriate, in the Commission's opinion, to use government compulsion to ameliorate the position of only those who are members of employment pension plans, since all taxpayers pay for the cost of indexing indirectly through the tax system.

The Commission, one member dissenting, recommends that protection from inflation beyond the level of the minimum income guaranteed to the elderly by government programs be provided for all retired persons in society up to a maximum level consonant with desirable social objectives and resources available.

The Commission therefore makes the following recommendations:

Recommendation 136. The Commission recommends that the Government of Ontario seek changes in the Income Tax Act (Canada) and the Income Tax Act (Ontario) to introduce a refundable Inflation Tax Credit for all residents of Ontario aged 68 and over to protect from inflation a measure of total retirement

income above the level of government floor programs (OAS, GIS, CPP, and GAINS), in step with cumulative changes in the Consumer Price Index. (One Commissioner dissented from this recommendation for the reasons set out in the text in Volume II, Chapter 10, under the heading "Inflation Tax Credit").

An appropriate amount for this protection might be twice the total of the OAS pension and the maximum CPP pension for the year. For 1980 this would afford protection for $11,925.20 of retirement income in addition to the OAS and CPP which are already fully indexed to the Consumer Price Index. See Volume II, Chapter 10, for a complete explanation of how such a tax credit might apply in practice.

Recommendation 137. With a view to contributing to the financing of such inflation protection, the Commission recommends that the Government of Ontario seek changes to the Income Tax Act system:

a) to make all income from whatever source subject to income tax, including in particular Workmen's Compensation payments.

b) to eliminate the present tax exemption related to age 65.

c) to eliminate the present tax deduction for pension and annuity income.

Employment Pensions

Loss of purchasing power through the effects of inflation should be borne by the individual except as modified by the implementation of the following recommendations, by government programs, by ad hoc adjustments by employers in employment pension plans, and by means arrived at between employers and employees through the collective bargaining process.

Recommendation 138. Although the Government of Ontario should not in general oblige employers with pension plans to provide inflation protection, the Commission recommends that employers and employees be free to provide indexing if desired and as determined within the collective bargaining process, provided that such inflation adjustments are funded in the manner recommended by the Commission in Recommendation 73 with a view to protecting active and retired plan members and preventing any diminution or impairment of basic retirement benefits.

Many have advocated and some have adopted the practice of making post-retirement adjustments out of gains to pension funds arising from investment earnings in excess of those assumed by the actuary in forecasting costs. Thus if the interest rate assumed was 6 per cent and the rate of return actually earned was 9 per cent, the fund would have a gain or "excess interest" over that expected. This gain would be available to adjust pension benefits rather than to reduce employer cost.

The Commission supports a limited approach to this use of the "excess interest" concept. It may be used effectively by segregating from the pension fund those amounts required to support pensions already in payment. The retired group then benefits from gains on this segregated fund in a way similar to a participating annuitant subject to a guarantee of a minimum pension amount. A participating annuity is one which guarantees a basic monthly payment increased by any additional earnings on the capital above those required to pay the basic amount.

> <u>Recommendation 139</u>. The Pension Benefits Act should be amended to require that every pension plan shall provide an employee retiring under the plan the option of a participating annuity. The employer may choose to purchase the participating annuity from an insurance company or to make pension payments directly from the fund. Where such annuity is payable from the pension fund the monies required to purchase such an annuity should be held in a segregated account with those for all other annuitants who have elected participating annuities, with such annuitants to share in any "excess interest" earned on the fund in each year. Where such annuity is paid out of the pension plan, the transfer of assets into the segregated account should be regulated by the Pension Commission of Ontario, including the setting of interest rates for the division of the fund and for the minimum annuity payable. The employer should receive any benefit for mortality gains and bear any loss for mortality losses, and should be responsible for guaranteeing the minimum annuity promised.

RETIREMENT AGE (Volume III, Chapter 15; Volume V, Chapter 8)

Although selecting age 65 for the beginning of retirement is arbitrary and may create artificial differences between those above and below age 65, it is a convenient social planning tool. A notional age of retirement has proved more satisfactory than an earnings or retirement test. A continued improvement in health and extended life expectancy eventually may make age 65 seem an early age for normal retirement. The Commission favours flexibility in the choice of retirement age for the individual, but this goal of flexibility must be balanced against the constraints of overriding social and economic policies. The Commission takes no position in the current debate on whether the protected age for right to employment should be raised. It does however make recommendations regarding changes in eligibility ages for government programs and employment pensions.

<u>Early Retirement</u>

The Commission found:

(i) While retirement tends to occur around 65, there is a trend to earlier retirement which is expected to continue.

(ii) Age 65 is the most widely accepted normal retirement age in pension plans, but nearly all plans provide for early retirement on a reduced pension.

(iii) Early retirement without actuarial adjustment increases pension costs substantially. Retirees need income over a longer period of time; periods of interest accrual before retirement are shorter; and inflation erodes the income over a longer period thereby affecting inflation adjustments.

Government Programs

Although the Commission supports flexibility in the individual choice of retirement age, it does not support flexibility if government transfer payments must then be paid at an earlier age. Lowering the basic age of entitlement would encourage earlier retirement, increase the costs of government programs and discourage work. The Commission therefore makes the following recommendations:

> Recommendation 140. The Government of Ontario should take no steps to lower the age of eligibility for retirement benefits of federal or Ontario government programs from the existing age of 65.

> Recommendation 141. The Government of Ontario should take no steps to lower the age of eligibility for retirement benefits of federal or Ontario government programs on an actuarially reduced basis.

Because the Spouse's Allowance program discriminates between unmarried and married persons aged 60 to 64 and produces inequities between married couples eligible for the Spouse's Allowance and those in which one partner is 65 or over and the other is below 60, the program should be phased out (see Recommendation 14).

Employment Pensions

> Recommendation 142. The Pension Benefits Act should be amended to create an option for every member of an employment pension plan to elect early retirement under the plan on an actuarially reduced basis at any time between age 60 and age 65 or the normal retirement age under the plan, whichever is the earlier.

Postponed Retirement

While there has been a long-term decline in labour force participation by the elderly, public opinion more recently has come to support the right of individuals to work beyond age 65, the usual age at which retirement is imposed on employees. While taking no position on the merits of postponed retirement, the Commission is concerned that those who work beyond normal retirement age should receive pensions which

reflect, in an equitable degree, the actual age of retirement. Unless an actuarial adjustment is provided, the employer's cost (of a defined benefit) is reduced when an employee's retirement is postponed. In the Commission's view such a result - that is, enrichment of the pension fund at the employee's expense - should not be permitted.

Employment Pension Plans

> Recommendation 143. The Pension Benefits Act should be amended to create an option for every member of an employment pension plan who continues to work after normal retirement age under the plan to postpone taking of the pension beyond normal retirement age and to accrue an actuarial increase in the pension until retirement.

Government Programs

> Recommendation 144. The Government of Ontario, in the absence of strong evidence of a need to encourage work-force participation beyond age 65, should take no steps to provide actuarially increased benefits in either federal or Ontario government programs if taking of benefits is delayed past age 65, except to the extent it now exists in the Canada Pension Plan.

WOMEN AND THE PROVISION OF RETIREMENT INCOME (Volume III, Chapter 16; Volume V, Chapter 8)

While retirement arrangements are not inherently discriminatory against women, their design and operation result in women obtaining minimal retirement income. Most women have less potential income from employment pensions and are more likely to require government assistance in old age. The Commission found the following factors contribute to the disadvantaged position of women in the provision of retirement income:

(i) their longevity continues to increase, thereby widening the gap between their life expectancy and that of men: women need income for longer periods of time and their incomes will be affected by inflation for longer periods;

(ii) their position, both actual and assumed, as non-working dependent wives: survivor benefits are inadequate even where available; elderly women, often widowed, rely heavily on government programs.

(iii) their subordinate role in the work-force in spite of the phenomenal rise in work-force participation, particularly of married women: women are less likely than men to be members of a pension plan; women have broken service patterns reflecting the effect of child-rearing; women are more

likely to work on a part-time basis; women are in lower-paid occupations; women have greater job mobility; in all, women are more likely to receive a lower pension and are less likely to obtain any pension at all.

The Commission's earlier recommendations aimed at providing a minimum adequate retirement income to all persons from government sources will improve the situation of elderly women living in poverty today. Recommendations for a mandatory retirement savings plan, which would make all employment pensionable and provide complete portability and minimum death benefits before and after retirement, will improve the situation of working women over time. However, some recommendations are of particular interest for women.

Eligibility for membership in employment pension plans will be extended to a large number of part-time workers, a majority of whom are women, if the Commission's Recommendation 97 is adopted. In advocating this important extension of coverage we recognize that pension benefits are part of employment compensation, and so should not be denied to anyone who has a durable employment relationship. Whether a part-time worker should be required to join the employer's plan as a condition of employment is a matter to be decided according to the rules applicable to other employees. If a mandatory plan (PURS) is adopted, the Commission favours an eligibility standard that would cover regular part-time employment but would permit individuals to elect not to join a pension plan other than PURS.

Society increasingly supports non-discrimination between men and women in the provision of benefits. A woman's need for an adequate level of income in retirement is no different from that of a man. The Commission has recommended unanimously that unisex tables be used for the calculation of annuities under the mandatory plan (see Recommendation 105). The Commission, two members dissenting, has also recommended that unisex tables be used for annuities purchased for all money-purchase plans and RRSPs (see Recommendation 106).

In order to recognize women as a vital part of the work-force and to allow for the interruptions of careers for child-rearing, the Commission has recommended that the Province of Ontario approve the amendment to the Canada Pension Plan for the child-rearing dropout provision as now legislated, to take effect without delay (see Recommendation 32).

The Commission makes the following recommendations relating to support issues between married persons:

> Recommendation 145. Under the Ontario Family Law Reform Act pensions should be regarded as income in retirement which may be a source of support in the event of marriage breakdown, and not treated as a capital asset.

Recommendation 146. In order to avoid existing difficulties in attaching pensions to satisfy support orders, consideration should be given to redrafting Section 30 of the Family Law Reform Act in consultation with the Pension Commission of Ontario.

For the long term, the Commission favours an approach which would end the discrimination in pension plans that arises from an assumption that married women are dependent on their husbands. In the short term, however, established dependencies must be recognized. If present structures remain unaltered, massive fiscal transfers will be required in the future to provide women with a decent income in their increasingly long lives. The system should be redesigned now to fit the emerging reality of women as workers and to open as many avenues as possible for women to contribute to their own future security. The Commission therefore makes the following recommendation:

Recommendation 147. The Province of Ontario should take no new steps to support the use of assumed need arising from marital status as a basis for employment pension design, for example, by requiring plans to provide a non-elective joint and survivor form of pension.

However, if a joint and survivor annuity as the primary benefit for an employment pension, which can be altered only on the written consent of the spouse, is legislated as recommended by the Commission (see Recommendation 54) a woman who is dependent on her husband for retirement income will be afforded some protection where none is now available.

GOVERNMENT REGULATION - TAXATION (Volume III, Chapter 14)

By allowing deductions for income tax purposes to both employers and employees in employment pension plans and to contributors of Registered Retirement Savings Plans (RRSPs), the federal government is in a strong position to control and direct the development of employment pension plans and other retirement income arrangements. It is important therefore that decisions made for tax policy reasons be examined for their effect on pension benefit policy, which is primarily within the control and direction of the province. It is within the power of the Government of Ontario to negotiate with the federal government to ensure a suitable balance between the respective goals of tax policy and pension benefit policy. The Commission makes the following recommendations directed to the emphasis the Government of Ontario might seek in tax policy:

Recommendation 148. The Government of Ontario should consider with the federal government common goals for retirement income provision to be achieved by the interaction of federal tax policy and provincial social legislation.

Recommendation 149. Since the main goal of providing tax-sheltered funds is to finance retirement income, steps should be taken to curtail existing tax incentives for cash withdrawal from employment pensions before vesting.

Recommendation 150. Roll-overs of pension benefits and retiring allowances into RRSPs should be monitored to ensure that amounts in excess of reasonable retirement requirements are not thereby receiving tax shelter.

Recommendation 151. The Government of Ontario should consider with the federal government, against the background of tax treaty negotiations, the effect on Canada's capital markets and trade balance of situations in which tax-sheltered funds from retirement income vehicles may be diverted to other countries.

The Commission, one member dissenting, has recommended that the Government of Ontario should take steps to implement an inflation tax credit under the income tax system to afford some protection against loss of purchasing power through inflation for all persons age 68 and over. (See Recommendation 136).

Government Programs

The Commission makes the following recommendations:

Recommendation 152. The Government of Ontario should seek amendment to the Income Tax Act (Canada) and make complementary amendments to the Income Tax Act (Ontario) and any other fiscal statutes, to base exemptions and deductions on a needs basis where these are now universal and in particular to replace the present age exemptions and the present pension deduction by other relief administered on a needs basis.

Recommendation 153. If the pension income deduction is to be retained, a minimum age should be adopted to avoid encouraging early retirement.

Recommendation 154. Income-tested tax exemptions and credits should take into account all income.

Retirement Arrangements

As noted in Recommendation 102, if a mandatory pension plan is adopted by the Government of Ontario, more flexibility in the benefit design of employment pension plans may be provided when the mandatory plan matures. In the interim some changes are necessary to treat retirement arrangements on a more equal basis. Pension plan members may receive tax deductions for contributions up to $3,500 on account of current service and for contributions for past service. Contributors to

RRSPs are limited to 20 per cent of earned income to a maximum of $3,500 (or $5,500 if not a member of a registered pension plan) and no contributions may be made on account of prior years. Saving for retirement increases with age, and the 20 per cent limitation is unrealistic. Its removal would compensate for the inability to make "past service" contributions. The Commission makes the following recommendations:

> Recommendation 155. Contributions for RRSPs should be permitted to the maximum dollar amounts specified, and the percentage limitation of earned income should be removed.

> Recommendation 156. Deductions by employer and employee for past service contributions to money-purchase plans should be permitted.

As already noted, in order to provide additional flexibility in pension rights on termination it will be necessary for the Government of Ontario to seek amendment to the Income Tax Act (Canada) and make complementary amendments to the Income Tax Act (Ontario) and any other fiscal statutes to create a new type of locked-in pension vehicle to which transfers of funds can be effected from employment pension plans (see Recommendation 45, 50 and 51).

CONSTITUTIONAL ISSUES (Volume III, Chapter 18)

Although the area of pensions was not specifically assigned to either the federal or provincial governments in the British North America Act, legislative jurisdiction has been assumed by the provinces as property and civil rights. In practice, however, legislation concerning both employment pensions and government programs has been achieved through a high degree of co-operation among governments.

Amendments to the BNA Act permitted the federal government to enact the Old Age Security Act and the Canada Pension Plan. The Commission believes that providing a basic level of income in retirement to the needy elderly should continue to be achieved by an overall national approach combined with supplementary support and co-operation by the provinces. The province of Ontario should continue to participate in the Canada Pension Plan to provide a measure of replacement income in retirement.

Six provinces and the federal government have enacted pension benefits legislation. They have made arrangements for uniform administration and common registration procedures, but significant differences are beginning to emerge in policy and regulation in various jurisdictions. In the result, there are signs of increasing administrative complexity in cases where an employment pension plan covers members in two or more jurisdictions; employees as well as plan sponsors are likely to have difficulty ascertaining their rights and duties under divergent laws and regulations. One possible answer - a single federal super-

visory law and administration - would however fail to satisfy the desire of each province to respond to the needs and priorities of its own constituents.

While uniformity is a necessary goal its pursuit should not become an excuse for inaction. The Commission favours an approach of encouraging both policy and regulatory uniformity through joint consultation among the jurisdictions. It also recognizes that some changes have been delayed too long on the basis that change would upset uniformity. It is time for Ontario to amend its legislation, but in consultation with the other provinces and the federal government.

The Commission therefore makes the following recommendations:

> Recommendation 157. The Government of Ontario should attempt to achieve changes in pension benefits legislation in consultation with other jurisdictions having pension legislation.

> Recommendation 158. The Government of Ontario should embrace the principle of uniformity in pension benefits legislation among all jurisdictions in Canada and support the principle in its own legislation as far as possible.

> Recommendation 159. The Government of Ontario should urge those provinces not now having pension benefits legislation to adopt legislation similar to that of Ontario.

> Recommendation 160. The Government of Ontario should take steps to initiate an agency similar to the Canadian Association of Pension Supervisory Authorities (CAPSA) but with the express purpose of encouraging uniformity of pension policy, through discussion and consultation among persons who have input to government at the policy level in their respective jurisdictions.

> Recommendation 161. The Government of Ontario should continue to support uniformity in pension regulation through CAPSA and assist in co-ordinating the role of CAPSA with that of any pension policy body that may be created.

> Recommendation 162. The Government of Ontario should adopt a mandatory retirement savings plan on a provincial basis, and encourage other provinces to adopt similar plans, with interrelation through reciprocal agreements; and, if feasible, administrative co-ordination with the Canada Pension Plan.

> Recommendation 163. The Government of Ontario should pursue a policy of co-operation with the federal government in matters affecting pension policy, such as tax deductibility and tax-sheltered vehicles.

Part VI

Economic Considerations for Retirement Planning

ECONOMIC CONSIDERATIONS FOR RETIREMENT PLANNING

In addition to assessing the cost of specific retirement income programs, the overall cost implications to society of providing income for the retired population must be considered. We must consider the capacity of the economy to provide for all the income commitments made to those who have retired and those who will retire - to allocate income from the productive population to the non-productive. To improve the financial position of the elderly will require an increasingly productive economy or a shift in income distribution in favour of the older population.

The Commission studied various economic issues to determine how much retirement income can be provided and through which mechanisms.

Saving and Spending

The standard of living in retirement depends on our willingness to postpone consumption in total and per capita. While saving must be balanced with spending, governments must ensure that a desirable minimum rate of saving is maintained through savings incentives such as tax deductibility for contributions to retirement arrangements as well as through compulsory programs such as PURS. Our projections show that the choice of strategies should favour investment rather than consumption.

Investment Return

If retirement income is to fulfil individual and public policy expectations, it must represent a real rate of return on capital and the return of that capital in real terms (i.e., excluding the effect of inflation). This is achieved in government programs through the index-

ing of benefits, and in employment pensions funds by rates of return of 2 to 3 per cent per year above the inflation component. Pension planners must make adequate provision for periods of low returns and potential capital depreciation. Pension plan participants should not be misled by optimistic long-range promises.

Employment Costs

Increases in the cost of labour, unless offset by improvements in output, can have a negative effect on investment decisions and eventually on all incomes. Pension promises involve a long-term labour cost commitment. If these costs increase unduly, employers will be less willing to undertake pension improvements. Employers and employees should be encouraged to regard the provision of retirement income as a high priority in deciding the composition of the compensation package.

Economic Growth

The potential level of retirement income will be determined by the total amount of income the economy is able to generate and therefore share among its inactive members. Real economic growth is basic to an increase in real incomes. If consumption rises more rapidly than GNP or investment the growth rate will decline.

We are experiencing at this time economic difficulties including a persistently high level of inflation, a rising level of unemployment and a sluggish rate of private investment. At first glance any additional cost should be avoided or postponed. Our studies show that the Canadian economy will not enjoy high rates of real growth in the next 10 years or more. Retirement income planning must accept that reality. It may therefore not be possible to satisfy all expectations for retirement income immediately.

Economic growth must be encouraged by utilizing the capabilities of both the private and government sectors.

CONCLUSIONS

The following points should be taken into consideration when any planning is done for retirement income provision. To ignore any of them is to court economic consequences which the Commission believes in the long run are unacceptable.

1. *Without any improvement in existing benefit levels or design of government programs, OAS, GIS and SA, and GAINS, demographic trends indicate additional costs both because of longer life expectancies and the trend towards a greater proportion of women surviving into retirement. Continuing*

inflation and benefit indexing also mean higher costs for existing programs.

2. *This cost burden will be borne easily or with difficulty depending on*

   a) *the size of the work-force, which will in turn be affected by birth rates, immigration and emigration and work-force participation rates; and*

   b) *the productivity of the work-force - that is, its ability to provide a real rate of growth in the Gross National Product.*

3. *Forecasts for real growth in GNP during the 1980s generally agree that growth will be slow and will not return to the rates of growth experienced in the 1960s. Some predict zero growth for the early 1980s.*

4. *Real growth in GNP is dependent in large measure on capital investment which is fostered by long-term savings. To the extent that government increases its share of GNP by transfer payments and finances its deficit through personal and corporate income taxes, the amount of GNP available for long-term capital investment will decrease, and with it the productivity of the work-force (the measurement of real growth in GNP). The lower the productivity the greater the burden of existing programs on the work-force.*

Government Programs

The overall effect of these factors, in the opinion of the Commission, is to create a climate for the 1980s in which any increases in existing government programs should be approached with great caution. It is a time, the Commission believes, when, recognizing that our resources for these programs are not limitless, we should husband those resources and live with the realities of the 1980s. Three ways of doing this are clear to the Commission:

First: *Any increases in existing government programs should be allocated on a needs basis only. This means that the OAS need not be increased on a universal basis; that net replacement ratios are an essential approach in assessing needs; and that indexing to wages, post-retirement, need not be instituted.*

Second: *Any improvements in government programs should be costed on a realistic basis to reveal in detail both present cost and projected cost. These costs must then be set into the framework of the share of GNP required to cover such costs, and the effect such allocation will have on capital investment. Real*

growth in GNP should be monitored with care to assess how much can be set aside for retirement income provision both from present consumption and savings.

An example of a policy change recommended by some which requires such cost assessment is the lowering of the age at which government programs are made available.

A most cogent example is found in the Canada Pension Plan. Increasing the CPP is advocated by many as a quick, efficient, and politically feasible answer to a number of perceived needs for retirement income. The Commission has examined and rejected this option. The greatest weakness in such an approach lies in the economic consequences for the future. Increasing the monies available to government for these purposes could serve to fuel more inflation. If changes can be made to allocate the savings into capital investment, an increase in saving could result in real growth in GNP. However, mechanisms do not exist for controlling the use of savings in the CPP over the long run to ensure their use as capital investment funds.

Part of the appeal of raising the level of CPP benefits is the apparent low cost of doing so. Various subsidies have been available in the CPP (such as full pensions after only 10 years' contributions) which make a CPP pension look inexpensive. The Commission expects some upturn in the birth rate to ease the intergenerational burden implicit in the funding design of the CPP. However, the real problem arises from the single fact that the true cost of CPP benefits is obscured. To increase the CPP with the same built-in subsidies is only to continue to ignore true costs.

Continuing or increased emphasis on the position of the CPP in a retirement income system, so long as the cost-benefit relationship is not equalized, has a little-realized effect on the whole field of retirement income provision. As we have seen in Volumes VI and VII, the employment pensions provided for employees of the public sector occupy a very large part of employment pension provision. Costs of these pensions are a concern of the Commission and of the public. Nearly all of these plans are integrated with the CPP. Any increase in the benefit structure of the CPP without providing for payment of the full cost of the CPP benefit now (i.e., full funding) would result in a lower cost to the public sector for the portion of its pension promise covered by the CPP. The result would be to obscure further the cost of public sector pension promises.

Finally, in simply increasing the CPP more issues are raised as to how much inflation protection is needed and how it is to be handled.

Third: The Government of Ontario should implement the mandatory retirement savings plan (PURS).

The PURS plan, while requiring a long time to mature, will immediately provide funds for long-term investment, allocated through the private capital markets. The additional capital investment will generate real growth in the GNP. The government will be required to borrow at market rates rather than under artificial rules set up under the CPP. Thus, PURS will increase real earnings before retirement and will provide the resources to pay pensions after retirement built on private capital investment. PURS, with its emphasis on employee control of investment policy, will encourage more people to learn about the investment process.

PURS puts the cost-benefit relationship in clear perspective. If the economy prospers, real rates of growth will enhance the benefits accruing under the PURS plan. Each person will pay for his or her own pension and will also benefit from his or her own contributions. At the same time, the fully-funded basis of this plan with its money-purchase design will contribute to the capacity of the economy to grow and therefore produce the promised retirement income.

Employment Pensions

In spite of the almost unprecedented degree of economic uncertainty which faces Canada as we move into the 1980s, it is necessary that we identify and attempt to deal as promptly as possible with the income needs of the elderly, and take steps to inaugurate a retirement income system that will progressively improve the financial security of the retired population, present and future.

Consistent with that aim, the Commission has arrived at a strategy which leaves government with a well-defined role of ensuring adequacy of retirement income at age 65, and the private sector with an enlarged and more flexible role in assisting individuals to provide for continuation of lifestyles after they retire.

The mandatory plan will enable employers to ascertain and control pension cost and provide all workers with pension coverage and portability. Other retirement arrangements will be matters for individual employers and employees.

Glossary of Pension Terms

Pension plan language displays a great variety in terms and usage from one occupation or firm to another, and often among different professionals. Government pension programs have introduced their own specialized terminology, including new or special meanings for old terms. In public discussion it often happens therefore that two different terms are used interchangeably; or an expression, though technically correct, is applied in a manner sufficiently unusual to confuse many readers - even, on occasion, the well-informed. In the preparation of its report the Commission has made every effort to define and explain all terms used as and when they occur in the text. It was thought useful, however, to include this Glossary, covering as many as possible of the specialized words and phrases occurring in the report itself and likely to be encountered in subsequent discussion of pension issues at various levels. The only items intentionally omitted are those not in general use today, or for which an adequate definition is possible only in the context of a full discussion, as is the case with some actuarial and legislative expressions.

ACCRUED PENSION - Amount of pension credited to a plan member according to service, earnings, etc., up to a given time.

ACTUARIAL ASSUMPTIONS - In an actuarial valuation, a set of estimates of future developments affecting the cost of benefits to be provided under a pension plan (e.g., mortality, salary increases, investment return, employee turnover, retirement ages).

ACTUARIAL EQUIVALENT - Result of a calculation used to reduce or increase the amount of monthly pension payments when taken in a form other than the normal form of benefit - at a different age, or with different survivor conditions, etc. - but representing the same total value over the entire term of the expected payments. For example, a

life pension commencing at age 60 may be a lower monthly amount than one starting at age 65 because a greater number of monthly payments are expected; it is said to be the actuarial equivalent of the age 65 pension when the present value is the same.

ACTUARIAL VALUATION - Examination of a pension plan by an actuary to assess the solvency of the plan and determine the level of contributions required to maintain its solvency.

ACTUARY - A professionally trained specialist in the pension and insurance fields. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

ADDITIONAL VOLUNTARY CONTRIBUTIONS - Contributions to a pension plan, made voluntarily by an employee in addition to those required for specific plan benefits. Extra benefits are purchased by the additional contributions but no additional cost is borne by the employer.

ADEQUACY - A social judgment applied to determine the amount of income to be provided through government programs to the elderly - in this report, persons aged 65 and over. As used in Volume I, Chapter 6, adequacy level is defined as the amount required for adequacy in 1979 for persons who retired at the end of 1978; and adequacy standard is a formula for determining the adequacy level in subsequent years.

AD HOC ADJUSTMENT - Amount added to a pension after retirement, on an irregular basis and not as a result of a prior commitment or contract. To be distinguished from indexing.

AGE DISTRIBUTION - Analysis of the age of a group according to number of members in each age class: e.g., 20-24, 25-29, etc.

AGE PENSION - Term used to distinguish pensions payable on account of a person's age from those payable in event of disability, etc.

AMORTIZATION PERIOD - Period of years over which payments are made into a pension plan to meet the cost of benefits that have not been fully funded. (See Unfunded liability.)

ANNUITY - In pension terminology, periodic payments (usually monthly) provided by the terms of a contract for the lifetime of an individual

(the annuitant); may be a fixed or varying amount, and may continue for a period after the annuitant's death. See Guaranteed annuity; Joint and survivor annuity; Straight life annuity; Level income option; Participating annuity; Variable annuity; Normal form of benefit; Optional form of benefit.

ANNUITY RATE - Price charged by an issuer of annuities to provide a dollar of annuity (usually per month) under specified conditions to an individual based on the person's age, interest rates, etc.

AVAILABLE INCOME - Total dollar value of money income and other benefits received by an individual, including such items as income tax credits and free health plan premiums. (Term used in discussion of Adequacy, Volume I, Chapter 6).

AVERAGE INDUSTRIAL WAGE - The Industrial Composite of Wages and Salaries (weekly) as measured by Statistics Canada and reported in Employment, Earnings and Hours (Cat. 72-002). Usually cited as an annual average.

BENEFICIARY - In a pension plan, a person who, on the death of a plan member or pensioner, may become entitled to a benefit under the plan. (See Survivor benefits, Death benefits.)

BENEFIT - Generally, any form of payment to which a person may become entitled under the terms of a plan; often refers specifically to the normal pension provided by the plan formula.

BENEFIT FORMULA - Provision in a pension plan for calculating a member's defined benefit according to years of service, earnings (career or final average), a fixed dollar amount, etc. (See: Flat benefit; Career average benefit; Final average benefit; see also: Defined contribution plan.)

BEST EARNINGS FORMULA - A defined benefit formula which applies the unit of benefit credited for each year of service to the member's average earnings for a specified period of highest earnings (e.g., best five of the last ten years of service). See also: Final average formula; final earnings formula.

BRIDGING SUPPLEMENT - A supplemental benefit payable in addition to regular benefits under a pension plan to an employee who retires

before becoming eligible for government benefits, but ceasing when OAS or CPP/QPP benefits are payable (or offset by those benefits).

CAREER AVERAGE FORMULA - A defined benefit formula which applies the unit of benefit to earnings of the member in each year of service, and not to final or final average earnings.

CARRIER - General term used to refer to an insurance company, trust company or other financial institution with responsibility for some or all functions under a pension plan.

CASH WITHDRAWAL - A return of personal pension contributions to a member whose employment is terminated.

CHILD-REARING DROPOUT - Provision in Quebec Pension Plan (and Canada Pension Plan, subject to approval of provinces) under which allowance is made for months in which no (or low) contributions were made while the contributor was raising children.

COFIRENTES + - Pension review committee established by the government of Quebec; report released March 14, 1978. (Comité d'étude sur le financement du Régime de rentes du Québec et sur les régimes supplémentaires de rentes.)

COMMUTED VALUE - Amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments. See also: Present value.

COMPOUND INTEREST - Interest credited to the investor at a specified rate and on specified dates, and added to the principal for the purpose of subsequent interest calculations.

COMPULSORY PLAN - A pension plan which eligible employees must join as a condition of employment.

COMPULSORY RETIREMENT - Provision in a pension plan, collective agreement or employer's rules requiring that employee must retire at a certain age or under other specified conditions.

CONTINUOUS SERVICE - Period during which an employee is continuously employed by the same employer; may be defined in a pension plan (or by law) so as to include certain periods of absence, and service with an associated or predecessor employer. To be distinguished from Credited service.

CONTRIBUTION INTEGRATION - Provision for reducing the required contributions to a pension plan by contributions prescribed in the Canada Pension Plan (or QPP). To be distinguished from treatment of contributions in Step-rate integration.

CONTRIBUTORY PLAN - A pension plan which requires the employee to make contributions by payroll deduction in order to qualify for benefits under the plan.

COST CERTIFICATE - The certificate of an actuary, based on an actuarial valuation, setting out costs and contributions required under an employment pension plan. Under pension benefits legislation a cost certificate must be filed when a plan is established and at least every three years thereafter, and when the plan is amended.

CREDITED SERVICE - Periods of employment counted in calculating amount of pension; may also be a basis for qualifying for a particular type of benefit. See also: Continuous service.

CREDIT SPLITTING - See Division of pension credits (CPP).

CURRENT SERVICE - Period of service of an employee after becoming a member of a pension plan. Current service cost usually refers to the cost of benefits credited to members of a plan in a given year. See also: Past service; Unfunded liability.

DEATH BENEFIT - A lump sum (usually), payable from a pension plan to the beneficiary or estate of a member who dies before retirement. May refer to a payment on death after retirement. See also: Survivor benefit; Guaranteed annuity; Joint and survivor annuity.

DEFERRED PROFIT SHARING PLAN (DPSP) - Type of profit sharing plan defined in the Income Tax Act, often used as a defined contribution pension plan. Employee contributions are not deductible from income for tax purposes. See also: Profit sharing pension plan; Employees profit sharing plan.

DEFERRED RETIREMENT - See Postponed Retirement.

DEFERRED VESTED PENSION (ANNUITY) - A specified pension determined at the time of termination of employment or termination of a plan but not payable until some later date, usually normal retirement age. (See Vesting.)

DEFINED BENEFIT PLAN - A plan which defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If plan is contributory, the rate of employee contributions may be specified, with the employer paying the balance of cost. To be distinguishe from defined contribution plan.

DEFINED CONTRIBUTION (MONEY-PURCHASE) PLAN - Plan which defines contributions to be made by employer and employees, but not the benefit formula. Accumulated contributions and interest are used to purchase an annuity for the member. To be distinguished from Defined benefit plan.

DEMOGRAPHIC PROJECTION - An estimate of the future size and composition of the population, based on past and current census data and assumptions as to birth and death rates, immigration, etc.

DEPENDENCY RATIO - A demographic expression of the economic relationship of the population outside the labour force to those in the labour force in a given year. Term may refer to all who are inactive (in the economic sense) or just those considered to have retired.

DEPENDENT CHILD'S BENEFIT - Under the Canada Pension Plan (or QPP), a monthly amount payable to each dependent child of a disability pensioner or deceased contributor.

DEPOSIT ADMINISTRATION - A contract with an insurance company to administer a pension plan, but with the employer responsible for solvency until funds are used to purchase annuities, usually at the time of retirement. (See also: Insured plan.)

DISABILITY PENSION - Pension payable to an employee permanently incapacitated due to physical or mental disability.

DISCOUNTED COST - Present value of benefits payable in the future, taking into account estimates of future investment yield and the probability that plan members will live and remain in the plan long enough to qualify for payment of benefits.

DISPOSABLE INCOME - Generally, a person's income from all sources, minus income taxes.

DIVISION OF PENSION CREDITS - Also known as "credit splitting," a provision in the Canada Pension Plan (and QPP) whereby one spouse, on dissolution of marriage, may obtain an equal division of pension credits earned by one or both partners during the period of marriage.

DROP-OUT MONTHS - Under the Canada Pension Plan, certain low-earnings months which are not counted in calculating average contributory earnings on which the contributor's pension is based.

DUES-PAID PLAN - Pensions provided for members of a trade union, financed entirely by regular dues payments, without participation by employers.

EARLY RETIREMENT - Provision in a pension plan for retirement earlier than the normal pension age. The amount of pension credited under the plan formula may be reduced according to the member's attained age; or an unreduced pension may be payable if a specified service condition (e.g., 30 years) has been met. (See also: Special retirement.)

EARNINGS - A person's money income from employment or self-employment; usually excludes such forms of income as rents or bond interest. In some pension plans certain bonuses, sick pay, etc., may be excluded in calculating benefits.

EARNINGS CEILING - See Year's Maximum Pensionable Earnings.

EARNINGS-RELATED PLAN - Any plan with a benefit formula based on earnings (as opposed to a Flat benefit plan). Includes Career average and Final average plans.

EARNINGS TEST - A form of retirement test in which eligibility for a specified pension or supplement is determined on the basis of a person's earnings during a certain period.

ELIGIBILITY REQUIREMENT - A condition such as age or length of service that must be met before an employee is permitted or required to join a pension plan. (Term may refer to eligibility for certain benefits.)

EMPLOYEE-PAY-ALL PLAN - Any pension or retirement savings plan that is organized for or by a group of employees but is not financed by an employer. See also: Dues-paid plan.

EMPLOYEES PROFIT SHARING PLAN (EPSP) - A plan, defined in the Income Tax Act, under which employer contributions must be declared as income by the employee, and employee contributions are not deductible. Benefit payments out of the fund are generally tax-free. See also: Deferred profit sharing plan; Profit sharing pension plan.

EMPLOYMENT PENSION PLAN - A pension plan offered by an employer or supported by a group of employers for the benefit of employees. As used in this report, the term includes plans covering employees of governments and public agencies but does not include the Canada Pension Plan or other public programs.

ENTRY AGE NORMAL - A costing method used in arriving at a level premium cost for a group. It bases costs on the average career of employees from an assumed average age of entry into the the plan to normal retirement age. (See: Level premium, Single premium.)

EXCESS EARNINGS - In discussion of inflation, earnings from investments of a pension fund in excess of an assumed or expected rate of return.

EXPERIENCE DEFICIENCY - An unfunded liability, revealed by an actuarial review of a pension plan, resulting from a difference between actual experience (investment earnings, salary levels, etc.) and assumptions made at the time of a previous valuation.

FINAL AVERAGE (EARNINGS) FORMULA - A defined benefit formula which applies the unit of benefit credited for each year of service to the member's average earnings for a specified number of years just before retirement. See also: Final earnings formula; Best earnings formula.

FINAL EARNINGS FORMULA - A defined benefit formula which applies the unit of benefit credited for each year of service to the member's final salary rate or annual earnings immediately before retirement. See also: Final average formula; Best earnings formula.

FINAL PAY PLAN - Term commonly used for any pension plan whose benefits are based on earnings in a member's last years of service. See: Final average formula; Final earnings formula; Best earnings formula.

FLAT BENEFIT FORMULA - A defined benefit formula which specifies a dollar amount of pension to be credited for each year of service. Term should be distinguished from Flat rate pension.

FLAT RATE PENSION - A defined benefit expressed as a dollar amount of monthly pension, not related to service or earnings, but paid on retirement after meeting certain qualifying conditions. See for example, Old Age Security.

FULLY FUNDED - Term describing a plan which, at a given time, has sufficient assets to provide for all pensions and other benefits in respect of service up to that date.

FUNDED RATIO - Ratio of the assets of a pension plan to its liabilities.

FUNDING - Systematic payments into a fund which, with investment earnings, are expected to provide for all pensions and other benefits as they become payable. See: Fully funded; Provisionally funded; Terminal funding.

FUTURE SERVICE BENEFIT - Term used to refer to a current service benefit formula that differs from that for past service. See also: Current service; past service.

GAINS - See Guaranteed Annual Income System.

GOING CONCERN BASIS - Refers to the assumption, when making an actuarial valuation, that the pension plan will continue in operation indefinitely.

GOVERNMENT PROGRAM - Any legislative program under which benefits (pensions, income supplements, etc.) are provided by a government in its role as government rather than its role as an employer; e.g., Old Age Security, Canada Pension Plan, Guaranteed Income Supplement.

GROUP ANNUITY - A contract under which an insurance company agrees to provide retirement pensions to members of a group.

GUARANTEED ANNUAL INCOME SYSTEM (GAINS) - An Ontario government program providing monthly income supplements to certain needy residents, based on a guaranteed amount of annual total income. "GAINS-A" benefits apply to those aged 65 and over; "GAINS-D" benefits are for the blind and disabled.

GUARANTEED ANNUITY - An annuity which will be paid for the lifetime of a person, but in any event for a minimum period; e.g., if annuity is guaranteed for five years and the annuitant dies after three years, payments will be continued to a beneficiary or the estate for two years. See also: Survivor benefit.

GUARANTEED INCOME SUPPLEMENT (GIS) - A monthly payment under the federal Old Age Security Act to needy recipients of the OAS pension, based on a guaranteed minimum income amount. See: Old Age Security; Guaranteed Annual Income System (GAINS); Spouse's Allowance.

INCOME (PERSONAL) - Generally, all monies received by or credited to a person; may be defined to include receipt of certain goods or services, as well as non-earned income (interest, rents, etc.). For purposes of income tax and government support programs some forms of income may be excluded; or certain deductions may be allowed in computing net income.

INCOME SUPPLEMENT - A regular payment made to a person, usually on the basis of need or other special circumstances, in addition to other income such as earnings or pensions. See: Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Spouse's Allowance.

INCOME TEST - Method by which the income of a person or family is taken into account in determining eligibility for (or amount of) a payment under a government program. See: Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Spouse's Allowance.

INDEXING - Provision for periodically adjusting a benefit amount (usually after retirement) according to a formula based on a recognized index of price or wage levels, e.g, the Consumer Price Index. To be distinguished from Ad hoc adjustment.

INDIVIDUAL ANNUITY - Annuity purchased for an individual and held in trust by the employer until the person's retirement. Plan may be referred to as a pension trust.

INFLATION TAX CREDIT - A system of tax credits recommended in Volume II, Chapter 10, to offset a portion of inflation cost for retired persons.

INITIAL UNFUNDED LIABILITY - See Unfunded liability.

INSURED PENSION PLAN - A plan in which all benefits are purchased from and guaranteed by an insurance company as contributions are received.

INTEGRATION - Provision in a pension plan which relates plan contributions and/or benefits to those of a government pension program, e.g., Canada Pension Plan. Not to be confused with Level income option. See also: Contribution integration; Step-rate integration; Offset integration; Bridging supplement.

INVESTMENT RETURN (YIELD) - Earnings of a pension fund including interest on fixed income securities (bonds, mortgages, etc.) dividends, capital gains, etc.

JOINT ADMINISTRATION - Provision for a union-management committee or board to assume supervisory functions relating to a pension plan. May include provisions for final and binding settlement of disputes.

JOINT AND SURVIVOR ANNUITY - An annuity payable until the death of the retired employee, and continuing thereafter to the surviving widow or widower until that person's death. Commonly provided as an option at the time of retirement; may be available as a level amount or with reduction when one annuitant dies. See also: Survivor benefit.

LEVEL INCOME OPTION - Also referred to as a "notched" option: provision for employee, at time of retirement, to elect an increased pension, subject to a reduction by a specified amount when the retiree becomes eligible for pension under a government program. To be distinguished from integration.

LEVEL PREMIUM FUNDING - Funding method in which equal annual payments, per employee or a percentage of payroll, are contributed to a pension fund over the estimated working life of employees in a pension plan to

fund all benefits under the plan. To be distinguished from single premium funding.

LIFE EXPECTANCY - Number of years a person of given sex and age is expected to live, based on statistics of mortality. See: Mortality table.

LOADING - An amount added to the estimated cost of a pension plan to provide for expenses of a variable or minor nature; e.g., special retirement pensions, trustee fees.

LOCKING-IN - Requirement under legislation that pension contributions made after a certain date cannot be withdrawn or otherwise forfeited if the employee on termination of employment has attained a certain age or has completed a certain period of service or plan membership. See Vesting.

MANDATORY PENSION PLAN - An employment pension plan which employers are required by law to establish and maintain for their employees. See also: Provincial Universal Retirement System (PURS).

MANDATORY RETIREMENT - See Compulsory retirement.

MAXIMUM PENSIONABLE EARNINGS - See Year's Maximum Pensionable Earnings (YMPE).

MEANS TEST - Method by which a person's assets as well as income are taken into account in determining eligibility for or amount of payment under a government program. See Old Age Pensions.

MINIMUM WAGE - Lowest rate of pay an employer may pay to an employee according to applicable minimum wage legislation (provincial or federal).

MONEY-PURCHASE PLAN - See Defined contribution plan.

MORBIDITY RATES - Statistics showing the incidence of specific physical and mental ailments in large groups, by age, sex, occupation, etc.

MORTALITY TABLE - A table showing expected rates of death at various ages for people born in various periods. Used by actuaries to arrive at mortality assumptions when estimating the cost of pensions for a group. Term unisex is used when mortality estimates for males and females are combined in a single table.

MULTI-EMPLOYER PLAN - A pension plan covering employees of more than one employer, usually by agreement with a union or group of unions.

NEEDS TEST - Method of assessing a person's or family's expenditure requirements (shelter, food, fuel, etc.) in relation to other income or means, to determine amount of income support to be provided under a government program (e.g., in most provincial family benefit programs). See also: Income test; Means test.

NET REPLACEMENT RATIO - Measurement of adequacy of retirement income by relating it to income immediately before retirement, taking into account income taxes, tax credits, etc.

NON-CONTRIBUTORY PLAN - A pension plan in which all required contributions are made by the employer.

NON-PENSION BENEFIT - Any benefit or privilege provided by governments or private organizations to retired persons; e.g., employer-paid life insurance; free prescription drugs; reduced fares for transportation; subsidized housing.

NORMAL COST - Amount of annual contribution required to pay for the current service cost of a pension plan. Term usually refers to a level premium, based on a "normal" age assumption (e.g., entry age normal).

NORMAL FORM OF BENEFIT - Amount and other features of the annuity (pension) payable on retirement unless the plan member elects an optional form of benefit.

NORMAL PENSION - Amount of pension, according to the benefit formula, to which an employee is or would be entitled on reaching normal retirement age, based on earnings and/or service. See also: Benefit formula; Early retirement.

NORMAL RETIREMENT AGE - The age specified in a pension plan at which employees are expected to retire; may be the earliest age at which an unreduced pension is payable. See also: Early retirement; Normal pension.

OFFSET - Generally, the amount of one type of benefit used to reduce the amount of another benefit payable to a person, e.g., a disability pension where disability insurance benefits are provided by the same employer. For reference to government pension programs, see Offset integration.

OFFSET INTEGRATION - Provision in a pension plan for directly reducing a plan benefit by all or a portion of pensions payable to the individual from a government program. See also: Step-rate integration; Contribution integration.

OLD AGE PENSIONS - Usually refers to pensions formerly paid under a federal statute to aged residents who could qualify under a means test. (Program replaced in 1952 by the Old Age Security Act).

OLD AGE SECURITY (OAS) - Federal program providing a universal, flat rate pension to all residents aged 65 and over, regardless of need; also provides income-tested supplements: see Guaranteed Income Supplement, Spouse's Allowance.

OPTIONAL FORM OF BENEFIT - Form of annuity which a plan member may elect on retirement, differing from the normal form of benefit in amount and other conditions but of actuarially equivalent value. See also: Guaranteed annuity; Joint and survivor annuity; Straight life annuity; Level income option; Participating annuity; Variable annuity.

PARTICIPATING ANNUITY - A form of annuity in which the contractual amount of regular payments may be increased to reflect investment returns that are higher than originally assumed. (To be distinguished from Variable annuity.)

PAST SERVICE - Period of service of an employee before becoming a member of a pension plan. Term may be used to define certain benefits that differ from those for current service (future service). See also: Current service; Future service; Unfunded liability.

PAY-AS-YOU-GO PLAN - Term used for benefits that are not funded except as and when they are paid to individuals; i.e., payment is made from current revenue or other sources outside the plan as such.

PENSION - Generally, any regular periodic payment to a person who has retired from the service of an employer or has met certain age or other conditions for payments under a government pension program. See also: Annuity.

PENSION FORMULA - See Benefit formula.

PENSIONABLE EARNINGS - Defined portion of an individual's total earnings, used in calculating pension entitlement (e.g., excluding certain bonuses). See also: Year's Maximum Pensionable Earnings (YMPE) - term used in Canada Pension Plan.

PENSION BENEFITS LEGISLATION - Laws and regulations under which employment pension plans must be registered and meet prescribed standards relating to vesting, solvency, investments, etc. In Ontario, the Pension Benefits Act.

PENSION BOARD (COMMITTEE) - Group of persons designated according to the terms of a pension plan to oversee various administrative functions. Members may be trustees of the plan.

PENSION COMMISSION OF ONTARIO - Commission responsible for administering the Pension Benefits Act.

PENSION PLAN - A plan organized and administered to provide a regular income for the lifetime of retired members; other benefits that may be provided include payments on permanent disability, death, etc. See also: Annuity.

PENSION TRUST - See Individual annuity.

PLAN TERMINATION - Discontinuance of an employment pension plan, voluntary or involuntary (e.g., as in bankruptcy); wind-up procedure regulated by pension benefits legislation. See also: Priorities.

POOLED FUND - Funds of two or more pension plans, held by a financial institution and combined for investment purposes in a single fund, each plan sharing rateably in the net income from investments.

POOLING - In pension plans, term used to describe any method by which certain risks or costs are shared by all members of a group, and certain group advantages are gained. (Term may also refer to a method of fund investment; see: Pooled fund).

PORTABILITY - Extent to which an individual is provided on retirement with pension income which recognizes all periods of employment with various employers. See also: Vesting.

POSTPONED (LATE) RETIREMENT - Retirement of a member later than the time prescribed for normal retirement.

PRESENT VALUE - Amount of money which, if invested today at a given rate of compound interest would provide a defined benefit commencing at a specified future date.

PRIORITIES (PLAN TERMINATION) - A set of rules, in an employment pension plan or legislation, under which the assets of a plan that is discontinued are allocated among members and beneficiaries to provide as far as possible for all accrued benefits.

PRIVATE PENSION PLAN - See Employment pension plan.

PRIVATE SECTOR PLAN - An employment pension plan offered by an employer or by employers and unions (multi-employer plan) in the private sector.

PROFIT SHARING PENSION PLAN (PSPP) - Type of plan defined in the Income Tax Act: money-purchase, with employer's contribution expressed as a share of profits but subject to a minimum annual amount equal to 1 per cent of member's earnings. See also: Defined contribution plan; Deferred profit sharing plan; Employees profit sharing plan.

PROVINCIAL UNIVERSAL RETIREMENT SYSTEM (PURS) - Mandatory pension plan to be provided by all employers, as recommended in this report (Volume II, Chapter 12).

PROVISIONALLY FUNDED - In pension benefits legislation, term used to describe a pension plan that is not fully funded but is "solvent" - i.e., current service costs are being met year by year, and special payments are being made to amortize all unfunded liabilities.

PUBLIC PENSION PROGRAM (PLAN) - Also referred to as "government program." A legislative program providing pension benefits from the government in its role as a government rather than its role as an employer; e.g., Old Age Security, Canada Pension Plan. To be distinguished from Public sector plan.

PUBLIC SECTOR PLAN - An employment pension plan offered by an employer in the public sector, covering civil servants, teachers, municipal employees, etc. (As used in Volumes VI and VII, term refers to such plans in Ontario only). Not to be confused with Public pension program.

REGISTERED PENSION PLAN - An employment pension plan accepted for registration for tax purposes under the Income Tax Act, and/or for registration under applicable pension benefits legislation.

REGISTERED RETIREMENT INCOME FUND (RRIF) - Form of investment vehicle permitted under the Income Tax Act for funds an individual has accumulated in a Registered Retirement Savings Plan that has "matured."

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) - A personal retirement savings plan, defined in the Income Tax Act, under which tax is deferred on contributions and investment income until received as annuity payments.

REMARRIAGE CLAUSE - Provision for a surviving spouse's pension to be discontinued if he or she remarries; may include provision for renewal of payments if that marriage is later terminated.

REPLACEMENT INCOME - Regular payments (e.g., a pension) from a program whose purpose is to replace income which the individual previously obtained from employment. See: Net replacement ratio.

RETIRED LIVES FUND - In a trusteed pension plan, a segregated group of assets representing the value of all benefits for those who have retired under the plan; excess earnings of these assets may be avail-

able to increase the amounts of monthly pension payable. See also: Participating annuity.

RETIREMENT - Withdrawal from the active work-force because of age; may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

RETIREMENT INCOME - Income from pensions and other sources, to which a retired person is entitled. Term may include both private and public pension payments, income from personal savings, government income supplements, and imputed income (e.g., free health insurance premiums).

RETIREMENT TEST - Under a government program or employment pension plan, a method of determining that a person has actually left the labour force and so qualifies for a specified pension or supplement.

RETURN OF CONTRIBUTIONS - See Cash withdrawal.

SALARY SCALE - In pension costing, an estimate of future increases in wages and salaries of plan members whose benefits are based on earnings.

SEGREGATED FUND - Assets of a pension plan held by an insurance company for investment management only; funds are segregated from assets of the insurance company, and principal and interest are not guaranteed. To be distinguished from Insured pension plan and Deposit administration. See also: Trusteed pension plan.

SELF-ADMINISTERED PLAN - See Trusteed pension plan.

SINGLE PREMIUM FUNDING - Funding method in which current service cost is the present value of benefits provided under the plan for service during the current year. To be distinguished from Level premium funding. See also: Current service cost.

SOCIAL SECURITY - Term used to refer to a system of government programs providing for income security of individuals, especially the aged, disabled, etc. In Canada, the term as applied to the elderly usually includes Old Age Security, income supplements (federal and provin-

cial), the Canada and Quebec Pension Plans; may include other income support programs.

SOLVENCY - In a pension plan, the ability of the plan to meet its present and future obligations; the adequacy of provisions for funding.

SPECIAL RETIREMENT - Term used in some pension plans for conditions under which an employee may retire, usually with a normal pension, in certain exceptional circumstances, e.g., job redundancy. Term may be used in the broader sense of any provision for retirement on a normal (unreduced) pension earlier than normal retirement age.

SPLIT FUNDING - Practice whereby a non-insured pension plan purchases an annuity (i.e., an insured benefit) for each member at the time of retirement, instead of making monthly payments directly from the pension fund.

SPOUSE'S ALLOWANCE - Under the Old Age Security Act, a monthly payment, based on family income, payable to the spouse aged 60 to 65 of an OAS pensioner. See also: Old Age Security; Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Income test.

STACKING - Term sometimes used for a pension design in which there is no integration: that is, plan contributions and benefits are not related to those in any government pension program. See Integration.

STEP-RATE INTEGRATION - Provision in a pension plan for different rates of contributions and benefit accrual in respect of an employee's earnings below and above the YMPE (earnings ceiling) of the Canada/Quebec Pension Plan.

STRAIGHT LIFE ANNUITY - An annuity which is payable only during the lifetime of the annuitant; i.e., is not guaranteed to be paid for a minimum period and no part of which is payable to another person after the annuitant's death. See also: Optional form of benefit.

SURVIVING SPOUSE'S PENSION - A monthly benefit payable under a pension plan to the surviving spouse of a deceased employee or pensioner; usually refers to a benefit other than payments under a guaranteed annuity or joint and survivor annuity.

SURVIVOR BENEFIT - Generally, any benefit payable under a pension plan to the surviving spouse or dependent of a plan member who dies before or after retirement. See also: Surviving spouse's pension; Guaranteed annuity; Joint and survivor annuity; Death benefit.

TAX-BACK - Term commonly used for a reduction in amount of a person's income supplement because of income (of the individual or family) from other sources.

TAX CREDIT - Provision for a reduction of income tax payable (not a deduction from taxable income) by an amount of other taxes payable or a portion of housing or other expenses of the taxpayer; e.g., Ontario Tax Credits. Tax credit is said to be "refundable" if it is payable to a person with no taxable income.

TAX-DEDUCTIBLE - Refers to a type or amount of income which may be deducted from a person's total income in computing net or taxable income; e.g., registered pension plan contributions; pension income (up to $1,000 per year). See also: Tax credit.

TAX DEFERRAL - Provision in the Income Tax Act whereby certain pension and similar contributions are tax-deductible and employer contributions and investment income are not included in a member's current taxable income; but benefit payments are considered income for tax purposes in the year in which they are received.

TAX SHELTER - Generally, any savings arrangement entitled to tax deferral and therefore involving the probability that payments when received by the individual will be taxable at a lower rate than would apply in the year the income was first received or credited.

TERM CERTAIN ANNUITY - See Guaranteed annuity.

TERMINAL FUNDING - Method of funding whereby monies required to provide a member's pension are paid into the fund or used to purchase an annuity only at the time of retirement, and not regularly over the period of employment. (This method is not permitted under pension benefits legislation.)

TERMINATION OF EMPLOYMENT - Severance of the employment relationship for any reason other than death or retirement.

TERMINATION RATES - In pension costing, the observed or estimated rate of termination of employment for reasons other than death and retirement.

TRUST AGREEMENT (OR DEED) - An agreement setting out the duties and responsibilities of a trustee or trustees under a pension plan.

TRUSTEED PENSION PLAN - An employment pension plan whose funds are held and invested by trustees, and the plan sponsor is responsible for making sufficient contributions to maintain the plan's solvency. Benefits are not insured except to the extent annuities are purchased (see Split funding).

TURNOVER - See Termination of employment.

TURNOVER RATES - See Termination rates.

UNDERWRITER - Anyone who undertakes to provide future payments (e.g., pensions) in certain specified circumstances, in return for premiums paid by or on behalf of those who may become entitled to benefits; usually refers to an insurance company. See Insured pension plan.

UNFUNDED LIABILITY (UNFUNDED ACTUARIAL LIABILITY) - Generally, any amount by which the assets of a pension plan are less than its liabilities. An initial unfunded liability exists when benefits are created in respect of prior service (e.g.) and not provided for in current service contributions. See also: Experience deficiency; Funding.

UNION PENSION PLAN - Plan sponsored by a trade union; usually refers to a dues-paid plan (see definition) but may mean a plan financed by employer contributions (see Multi-employer plan).

UNISEX MORTALITY TABLE - See Mortality table.

UNIT BENEFIT FORMULA - Any defined benefit formula providing a benefit credit expressed as a percentage of a member's earnings for each year of service. (To be distinguished from flat benefit formula). See: Best earnings formula; Career average formula; Final average formula; Final earnings formula.

UPDATING (BENEFITS) - Term applied to the occasional review and increase of accrued benefits to reflect rising wage levels where the plan does not provide for automatic improvement as in a final average formula.

VALUATION - See Actuarial valuation.

VARIABLE ANNUITY - A pension whose amount varies according to the market value of the fund, usually invested in common stocks. In theory, this feature may compensate the retiree for the effects of inflation.

VESTING - The right of an employee, on termination of employment, to part or all of his or her accrued pension; usually requires locking-in of employee's contributions. Vesting is usually in the form of a deferred annuity commencing at retirement age. Vesting is said to be contingent or conditional if employee has the option of cash withdrawal. Statutory vesting occurs when employee meets the age and/or service conditions set out in pension benefits legislation (in Ontario currently, age 45 and 10 years' service or plan membership) and applies to benefits accrued after a specified date (Jan. 1, 1965 in Ontario). Cash vesting is a return of both employer and employee contributions if not restricted by statutory vesting.

VOLUNTARY ADDITIONAL CONTRIBUTIONS - See Additional voluntary contributions.

WAGE INDEXING - A method of indexing based on movements in average wages and salaries.

WAITING PERIOD - Period of service with an employer before an employee fulfils eligibility requirements for membership in a pension plan.

WIDOW'S PENSION - See Surviving spouse's pension.

WINDING-UP (OR WIND-UP) - See Plan termination.

WITHDRAWAL RATES - See Termination rates.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE) - Term used in Canada Pension Plan, often referred to as the earnings ceiling: the maximum amount of annual earnings from employment on which CPP contributions and benefits are calculated. YMPE is changed each year according to a formula based on average wage levels.